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APPROPRIATIONS REPORT 1995 BIENNIUM Summary



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HELENA, MONTANA • JUNE 1993





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1995 BIENNIUM BUDGET OVERVIEW

Projected Deficits Addressed

The 1993 Legislature faced an extremely difficult financial situation. Four of the major accounts in state government were projected to have combined deficits of \$280.3 million by the end of the 1995 biennium. Through budget reductions, revenue increases, and revenue estimate revisions, the legislature addressed

the projected deficits in all four accounts and adopted a balanced budget for the 1995 biennium.

Table 1 provides a summary of the projected deficit in each account and the legislative actions that addressed it. Following is a discussion of the budget balancing measures adopted by the legislature for each account.

Table 1				
Legislative Action in Major State Accounts, 1995 Biennium				
	(Millions)			
	General Fund/SEA	Highways	Workers' Compensation	Total
Projected Deficit	(\$168.9)	(\$11.7)	(\$99.7)	(\$280.3)
Legislative Action				
Expenditure Reductions/(Increases)	85.6	(25.1)	11.9	72.4
Revenue Increases	73.8	60.6	48.4	182.8
Loans	0.0	0.0	39.4	39.4
Revenue Estimate Revisions	31.6	(9.4)	0.0	22.2
FY93 Adjustments	2.5	(4.4)	0.0	(1.9)
Projected Balance	\$24.6	\$10.0	\$0.0	\$34.6

General Fund/SEA

The general fund and school equalization account (SEA) faced a combined fund balance deficit of \$168.9 million, based on the Revenue Oversight Committee's revenue estimates and current level budgets (the anticipated cost of continuing existing programs in the 1995 biennium). The legislature addressed this projected deficit with \$85.6 million of expenditure reductions, \$73.8 million in revenue increases, and \$34.1 million in revenue estimate revisions and adjustments.

The legislature reduced anticipated 1995 biennium expenditures in these two accounts by \$93.0 million, as detailed below. These expenditure reductions were offset by \$7.4 million of increased supplementals in

fiscal 1993, resulting in \$85.6 million of net expenditure reductions to address the projected deficit.

The 1995 biennium reductions made in House Bill 2, other appropriations, and the school equalization program are described below. The revenue increases and revenue estimate revisions used to address the projected deficit are discussed in the "General Fund Revenue Components" section.

Expenditure Reductions in House Bill 2

In House Bill 2 (the general appropriations act), the legislature reduced state agencies' current level budgets by \$87.2 million general fund. The reduction for each agency is shown in Table 2.

1995 BIENNIUM BUDGET OVERVIEW

Table 2
Legislative Action in HB 2 Compared to LFA Current Level Budgets
(General Fund in Millions)

Subcommittee/Agency	Budget Reduction	Statutory Appropriations	Funding Switches	Local Gov't./ Schools Impact	Totals
<u>General Government & Transportation</u>					
Legislative Auditor	(\$0.013)				(\$0.013)
Legislative Fiscal Analyst	(0.062)				(0.062)
Legislative Council	(0.784)		(0.050)		(0.834)
Environmental Quality Council	(0.045)				(0.045)
Judiciary	(0.183)	(6.500)	(0.429)		(7.112)
Governor's Office	(0.494)		(0.080)		(0.574)
Secretary of State	(0.021)		(1.723)		(1.744)
Comm. of Political Practices	(0.005)				(0.005)
State Auditor	(0.441)				(0.441)
Crime Control	(0.014)		(0.013)		(0.027)
Highway Traffic Safety	(0.000)			(0.059)	(0.059)
Department of Justice	0.587		(4.673)	(0.300)	(4.386)
Department of Transportation	(0.209)		(0.090)		(0.299)
Department of Revenue	(2.183)		(0.208)		(2.391)
Department of Administration	0.686				0.686
Department of Military Affairs	(0.338)				(0.338)
Total General Government & Transportation	(\$3.519)	(\$6.500)	(\$7.266)	(\$0.359)	(\$17.644)
<u>Human Services</u>					
Department of Health & Environ. Sci.	\$0.759		(\$1.375)		(\$0.616)
Department of Labor & Industry	0.195				0.195
Dept. of Social & Rehabilitation Services	(2.532)		(2.496)	(9.440)*	(14.468)
Department of Family Services	(5.637)				(5.637)
Total Human Services	(\$7.215)		(\$3.871)	(\$9.440)	(\$20.526)
<u>Natural Resources & Commerce</u>					
Public Service Commission	\$0.000		(\$4.345)		(\$4.345)
Dept. of Fish, Wildlife, and Parks	(0.219)				(0.219)
Department of State Lands	(1.386)		(0.601)		(1.987)
Department of Livestock	0.096		(0.349)		(0.253)
Dept. of Natural Resources	(1.179)		(2.544)		(3.723)
Department of Agriculture	(0.002)		(0.952)		(0.954)
Department of Commerce	(0.426)		(1.956)		(2.382)
Total Natural Resources & Commerce	(\$3.116)		(\$10.747)	\$0.000	(\$13.863)
<u>Institutions & Cultural Education</u>					
Montana Arts Council	(\$0.006)			(\$0.004)	(\$0.010)
State Library	(0.020)				(0.020)
Historical Society	(0.107)				(0.107)
Dept. of Corrections and Human Ser.	(8.716)		(2.598)		(11.314)
Total Institutions & Cult. Ed.	(\$8.849)		(\$2.598)	(\$0.004)	(\$11.451)
<u>Education</u>					
Office of Public Instruction	(\$0.320)			\$1.785	\$1.465
Board of Public Education	(0.012)		(0.004)		(0.016)
School for Deaf and Blind	(0.098)		(0.050)	(0.514)	(0.662)
Vocational Technical Centers	1.017				1.017
Commissioner of Higher Education	(0.382)	(0.932)		(0.369)	(1.683)
University Units	(22.356)				(22.356)
Agricultural Experiment Station	(1.379)				(1.379)
Cooperative Extension Service	0.020				0.020
School of Forestry	0.007				0.007
Bureau of Mines	(0.110)				(0.110)
Fire Services Training School	(0.014)				(0.014)
Total Education	\$23.627	(\$0.932)	(\$0.054)	\$0.902	(\$23.711)
Total All Subcommittee Actions	\$46.326	(\$7.432)	(\$24.536)	(\$8.901)	(\$87.195)

*A portion of the general fund reductions for House Bill 427 (\$8.7 million), is included in this total. Actual impacts to counties will be lower if counties do not operate general assistance and medical programs.

1995 BIENNIUM BUDGET OVERVIEW

As Table 2 shows, 53 percent or \$46.3 million of the general fund reductions are reductions in agency operational budgets. To realize these general fund savings, the legislature made significant policy decisions, including:

- 1) eliminating nursing and acute care services at Galen, downsizing men's and women's prisons, and increasing emphasis on community corrections, which resulted in \$8.7 million of biennial general fund reductions in the Department of Corrections and Human Services (DCHS);
- 2) eliminating an optional medicaid service (inpatient hospital youth psychiatric benefits), for a cost savings of more than \$7.0 million;
- 3) enacting cost containment measures in welfare and medicaid programs, designed to save over \$2.0 million during the biennium; and
- 4) maintaining funding for the six university units at near the 1993 biennium level, rather than using the enrollment-driven funding formula used by previous legislatures. This decision reduced anticipated expenditures by \$22.4 million.

The legislature also imposed 5 percent vacancy savings and a 0.5 percent budget balancing reduction on most agencies's general fund budgets, for a budget reduction of \$12.0 million. However, this reduction was offset by \$5.6 million in lower anticipated reversions (unspent appropriations). Since unspent personal services provide the majority of reversions, imposition of vacancy savings reduces anticipated reversions. Reductions in state agency budgets are discussed in detail in agency narratives in sections A through E.

Approximately 28 percent or \$24.5 million of the expenditure reductions are due to funding switches in

which other funds are substituted for general fund, leaving total spending authority unchanged. The major funding switches in House Bill 2 are:

- 1) \$5.3 million from the highway account will be used to fund Motor Vehicle Division operations;
- 2) \$4.3 million of utility taxes will be deposited in a state special revenue account instead of the general fund to fund the operations of the Public Service Commission;
- 3) \$2.3 million of Resource Indemnity Trust (RIT) revenue will be used to fund operations in the departments of State Lands and Natural Resources and Conservation;
- 4) \$2.6 million in DCHS, of which \$2.1 million of capital projects funds (cigarette tax revenue) will be used to fund operations of the Columbia Falls Veterans' Home and an additional \$0.5 million of earmarked alcoholic beverage tax will be used to fund the state-operated alcohol and drug abuse program; and
- 5) \$1.7 million of fees collected by the Secretary of State previously deposited in the general fund will be deposited in a proprietary account and used to fund most of the agency's operations.

Approximately 10 percent or \$8.9 million of the budget reductions reduce state support for or pass-through funds distributed to local governments and school districts. Of this amount, \$8.7 million reflects general fund budget reductions due to House Bill 427 (the "county welfare de-assumption bill"). While this bill eliminates state support for state medical, general assistance, and related welfare programs in state-assumed counties, it does not require counties to continue providing these programs.

1995 BIENNIUM BUDGET OVERVIEW

Eight percent of the budget reductions in House Bill 2 occurred because the legislature created statutory appropriations beginning in the 1995 biennium for programs that were appropriated in the general appropriations act in previous biennia.

1) House Bill 278 creates a statutory appropriation from the general fund for the District Court Reimbursement Program in the Judiciary. While general fund appropriations in House Bill 2 were reduced by \$6.5 million as a result of this legislation, the funds will continue to be expended from the general fund.

2) In House Bill 5, the legislature authorized refinancing of outstanding debt for the Butte Vocational-Technical Center. The 1995 biennium debt service costs for the new bond will be paid with a statutory appropriation. While this change reduced the general fund appropriated in House Bill 2 by \$0.9 million, the debt service will continue to be paid from the general fund.

Other Appropriations

The legislature approved \$94.7 million of general fund spending in addition to House Bill 2. Statutory appropriations account for \$77.0 million of this amount, providing payment for debt service, personal property reimbursement to local governments, retirement benefits, and other general fund obligations.

The legislature reduced anticipated statutory appropriation expenditures by \$8.9 million, by freezing personal property reimbursements at fiscal 1991 levels and directing the Department of Administration to structure bonds issued for the construction of prisons, university buildings, and Libby Armory so that no new debt service would be required in the 1995 biennium.

Offsetting these reductions are \$8.4 million in new statutory appropriations created for the district court reimbursement program, investment program, and DUI testing equipment; \$4.1 million for anticipated TRANS costs; \$6.5 million for the state employee pay plan; and \$6.2 million in miscellaneous general fund appropriations.

Reversal of 25 Year Trend

As a result of the expenditure reductions approved by the 1993 Legislature, appropriations from the general fund and SEA for the 1995 biennium are \$1.2 million less than expended in the current biennium. This is a significant change from recent biennia. During the 1970's, general fund expenditures grew an average of 26.8 percent each biennium. Despite slower budget growth in the mid-1980's, general fund and SEA expenditures grew an average of 13.9 percent each biennium from fiscal 1980 through fiscal 1993, as Table 3 shows. Thus, maintaining 1995 biennium general fund and SEA appropriations at virtually the same level as the 1993 biennium level reverses the upward trend in general fund and SEA expenditures that has continued for the past 25 years.

1995 BIENNIUM BUDGET OVERVIEW

Table 3
General Fund and School Equalization Aid Account Expenditures
1981 through 1995 Biennium
(Millions)

Biennium	GF Expenditures*	SEA Expenditures	Total GF and SEA Expenditures	Percent Increase
1981	\$502.720	\$309.385	\$812.105	
1983	680.512	411.797	1,092.309	34.50%
1985	737.746	452.763	1,190.509	8.99%
1987	758.140	490.571	1,291.951	4.88%
1989	759.123	532.828	1,518.936	3.46%
1991	889.935	629.001	1,518.936	17.56%
1993**	1,043.064	802.335	1,845.399	21.49%
1995***	1,032.193	812.024	1,844.217	(0.06%)

*Excludes transfers to the SEA.

**FY92 expenditures, FY93 appropriations including supplementals.

***As appropriated by the 1993 Legislature.

Cashflow Projections

During the 1993 biennium, the general fund experienced serious cashflow problems, due to large outstanding loans to the SEA and other accounts, large revenue accruals, and declining revenue collections. While no external short-term borrowing was necessary during the period fiscal 1989 through 1991, the state issued \$220.6 million of Tax and Revenue Anticipation Notes (TRANS) during the 1993 biennium. The July 1992 special session focused on cashflow management, enacting a series of measures designed to improve cashflow.

Cashflow difficulties were projected to continue into the 1995 biennium. At the beginning of the January 1993 session, the legislature faced a \$215.6 million cash deficit in the general fund and SEA, a deficit of \$46.8 million larger than the fund balance deficit. Through budget reductions and revenue measures, the legislature adopted a budget with a projected fund balance of \$24.6 million. However, the cash balance is projected to be a negative \$17.0 million at the end of the 1995 biennium. Administration officials state that sufficient "borrowable" reserves exist within other accounts in state government to ensure sufficient cashflow during the biennium.

The 1993 Legislature enacted two cash management measures during the session. During the July 1992 special session, the legislature delayed one-half of the final fiscal 1993 school foundation payment to districts until July. The 1993 Legislature extended this delay to fiscal 1994 and beyond. The legislature also provided a \$7.8 million loan from the coal tax trust to fund the natural resource damage assessment lawsuit. During the 1993 biennium, this suit was funded with a \$5.2 million general fund loan. The new legislation will allow repayment (with interest) of the general fund loan and provide an alternate funding source for the effort during the 1995 biennium.

Despite these measures, there will continue to be a "gap" of over \$41.0 million between the cash and fund balance in the general fund and SEA. The largest component of the gap is the \$26.9 million ongoing loan to the SEA. During fiscal 1991, the SEA had insufficient revenue, so a general fund loan was used to ensure that statutory foundation payments were made. While general fund supplementals were provided in the 1993 biennium (\$12.1 million) and for the 1995 biennium (\$124.9 million) to finance obligations during those biennia, funds were not provided to repay the original fiscal 1991 loan. So, the SEA will continue to

1995 BIENNIUM BUDGET OVERVIEW

borrow from the general fund during the 1995 biennium.

School Equalization Account (SEA)

The 1993 Legislature faced several problems with the SEA, the major account used to fund state support for K-12 education.

Due to projected increases in the number of students in Montana schools, providing the same amount of state support per pupil would cost \$37.4 million more during the 1995 biennium than during the 1993 biennium. Furthermore, the constitutionality of the existing school foundation program, which went into effect in fiscal 1991, was being challenged in two lawsuits. Lastly, the SEA required a \$12.1 million general fund supplemental during the 1993 biennium and was projected to need another large supplemental to fund the current level programs for the 1995 biennium.

In response to these problems, the 1993 Legislature adopted a new school equalization program (House Bill 667), effective in fiscal 1994. This new program, which is discussed in the "School Equalization Program" section, is estimated to cost \$30.0 million less than the previous foundation program.

These savings were partially offset by \$2.3 million of appropriations from the SEA for other education-related programs. In total, the legislature reduced SEA current level expenditures by \$27.7 million.

Based on final revenue estimates, the SEA will need a \$126.8 million transfer from the general fund to fund anticipated expenditures. In House Bill 667, the legislature appropriated \$124.9 million of this amount. This supplemental is needed primarily due to passage of Senate Bill 378, which significantly lowered SEA revenues by eliminating deposit of personal and corporate income tax collections and coal tax trust interest in the SEA and reallocating the revenues to the general fund effective in fiscal 1995.

Highways Account

While the combined highways account was projected to have a positive fund balance at the end of the 1995 biennium, the Department of Transportation (DOT) predicted it would have an \$11.7 million negative cash balance. In order to maintain current programs (including a \$20 million per year Reconstruction Trust Fund), a revenue increase was necessary.

The 1993 Legislature approved several revenue measures, which will generate additional net revenue of \$60.6 million. Gasoline and diesel fuel taxes were raised by 4 cents in fiscal 1994 and an additional 3 cents in fiscal 1995. An additional 0.75 cent tax was imposed on diesel fuel, effective January 1, 1994. A change in the method of collecting special fuel taxes will generate an additional \$5.0 million during the biennium. Gross vehicle weight fees revisions resulting in a net reduction of \$3.1 million offset these increases.

A portion of the increased revenue was used to fund new and expanded programs. The legislature approved \$24 million in DOT budget modifications, which included expanded pavement protection and maintenance programs. Of the additional revenue generated by the motor fuels tax increase, \$5.5 million will be distributed to local governments road programs and \$2.5 million to the Department of Fish, Wildlife, and Parks for roads in state parks. Lastly, the legislature funded \$5.4 million of Motor Vehicle Division costs from the combined highways account. These costs were previously funded from the general fund.

These legislative actions resulted in a projected working cash balance of \$10.0 million (\$30.0 million including the \$20 million minimum cash balance DOT strives to maintain) at the end of fiscal 1995. However, the structural imbalance in the account will continue, with biennial expenditures exceeding revenues by \$24.5 million. Based on current revenue and expenditure estimates, the 1995 Legislature will again be faced with the need for increased revenues or reduced expenditures in order to maintain the solvency of the account. A detailed discussion of this account appears on pages A-99 through A-102.

1995 BIENNIUM BUDGET OVERVIEW

Workers' Compensation (Old Fund)

In the May 1990 special session, the legislature separated the state-run workers' compensation program into two accounts managed by the State Fund:

1) the "old fund", which assumed the liability for injuries occurring before July 1, 1990 to workers who were covered under the state program. This fund is supported by a payroll tax enacted by the 1987 Legislature. In fiscal 1992, the State Fund issued \$142.1 million of bonds (secured by payroll tax collections) to help retire the old fund's liability.

2) the "new fund", which is responsible for injuries of insured workers occurring after June 30, 1990. The new fund is supported by premiums paid by employers purchasing coverage under the state program.

When the 1993 Legislature convened, the old fund had insufficient cash to pay liabilities through the end of fiscal 1993, requiring a \$16.2 million loan from the new fund. The State Fund estimated that approximately \$99.7 million of additional revenue would be necessary to pay claims and administrative costs during the 1995 biennium. Almost all the proceeds of the existing payroll tax are pledged to the repayment of the bonds, which have a maturity date of June 2020.

To address this problem, the 1993 Legislature increased the existing payroll tax on employers from 0.28 to 0.50 percent effective July 1, 1993. It also extended the payroll tax to employees, imposing a tax of 0.20 percent on gross wages (with some exceptions). Lastly, it imposed a 0.1 percent tax on the earnings of self-employed persons for the tax year beginning after December 31, 1992, which will increase to 0.2 percent

for tax years beginning after December 31, 1993. These tax revisions will produce an estimated \$48.4 million additional revenue during the 1995 biennium.

The legislature anticipated that the State Fund would maintain solvency in the old fund by continued borrowing from the new fund. As Table 4 shows, the State Fund estimates that \$39.4 million of such loans will be necessary in the 1995 biennium. No repayment to the new fund is planned until fiscal 1996. Based on current projections, the old fund will not finish repayment to the new fund until fiscal 2004. Prior to the session, the State Fund cashflow projections included \$7.9 million of loan repayments during the 1995 biennium.

During the 1993 session, the State Fund's actuary revised projected claims for the old fund, reducing 1995 biennium expenses by an estimated \$3.6 million. The actuary estimates that outstanding claims will be paid by 2009. Administrative costs were also reduced slightly, resulting in a projected cash balance of \$0 in the old fund at the end of the biennium.

The 1993 Legislature also enacted a major reform package designed to control costs in the new fund. This package of legislation covered various workers' compensation issues, consistently identified as problem areas, by addressing: 1) fraud by providing additional resources for fraud investigation and prosecution; 2) safety on the job by providing for safety consultation services; 3) information needs by approving development of a Department of Labor and Industry workers' compensation data base system; 4) medical costs by revising workers' compensation laws to attain better medical cost containment; and 5) by generally enhancing laws relating to claims management, employer reporting on claims, and employer reporting of employee payroll classification for premium billing purposes.

1995 BIENNIUM BUDGET OVERVIEW

Table 4
Old Fund Cashflow
(Millions)

	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
Beginning Balance	\$30.9	\$0.7	\$41.8	\$0.0	(\$0.0)
Revenues					
Payroll Tax	13.4	13.2	14.2	35.8	43.2
Other	25.9	5.0	0.5	0.0	0.0
Loans From New Fund	32.0	7.0	16.2	27.2	12.2
Bond Proceeds	<u>0.0</u>	<u>136.0*</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Revenues Available	\$102.2	\$161.9	\$72.7	\$63.0	\$55.4
Disbursements					
Benefit Payments	\$97.9	\$66.3	\$48.2	\$49.1	\$41.7
Bond Debt Service		11.0	11.3	11.3	11.3
Repayment To New Fund		39.0	0.0	0.0	0.0
State Fund Administration	3.6	2.9	2.7	2.2	2.0
Transfers to Other Funds		0.6			
DOR Administrative Costs	<u>0.0</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Disbursements	\$101.5	\$120.1	\$62.6	\$63.0	\$55.4
Surplus/(Deficit)	\$0.7	\$41.8	\$10.1**	\$0.0	\$0.0

*Excludes closing costs and a portion of the bond reserves.

**Includes bond reserves that are unavailable for payment of claims and administrative costs.

Source: State Fund and Office of Budget and Program Planning

GENERAL FUND REVENUES AND EXPENDITURES

Historical Data

Table 1 on the next page shows actual general fund revenues and expenditures from fiscal 1969 through fiscal 1992 as recorded on the Statewide Budget and Accounting System (SBAS) and projected revenues and budgeted expenditures through fiscal 1995, as approved by the 1993 Legislature.

Expenditure totals include transfers to the school equalization account (SEA), which account for virtually all of the expenditure growth in the 1995 biennium. During the 1993 biennium, \$12.1 million was transferred from the general fund to the SEA. During the 1995 biennium, an estimated \$126.8 million will be transferred. Sizeable transfers from the general fund to the SEA also occurred in fiscal 1979-1981 and 1984-1987. While the transfer is recorded as an expenditure in SBAS, the funds are actually expended from the SEA to fund state support for local school districts.

Table 3 in the "1995 Biennium Budget Overview" excludes these transfers, reflecting only their expenditure from the SEA.

Moving Toward Structural Balance

General fund expenditures have exceeded revenues during five of the last six biennia, as shown in the table on the next page. In order to keep the account solvent during this period, the legislature approved over \$55 million of transfers from other accounts into the general fund and enacted several temporary revenue increases. During the two special sessions in 1992, the legislature expressed concern over the continuing structural imbalance in the general fund.

The 1993 Legislature made significant progress toward addressing this problem. In setting revenue and expenditure targets, the House adopted language in House Resolution 2 prohibiting use of "one-time revenue... for any purpose other than creating an ending fund balance" and "temporary solutions to the state's chronic fiscal woes." Final legislative action reflected these objectives. The revenue increases enacted by the legislature are ongoing. General fund expenditures (excluding the transfer to the SEA) were reduced below the 1993 biennium level. As a result, general fund

revenue and expenditures for the 1995 biennium are nearly matched. Expenditures are only \$8.2 million or 0.7 percent above revenues. In previous biennia, expenditures have exceeded revenues by up to \$64.5 million.

The 1993 Legislature also enacted measures to contain costs in programs, such as medicaid and foster care, that are growing faster than revenues. These measures are designed to slow expenditure growth, helping the legislature maintain structural balance in the general fund in future biennia.

1995 Biennium Appropriations

Table 2 shows the estimated general fund balance sheet for the 1995 biennium. Estimated revenues are as adopted in House Joint Resolution 3, adjusted for legislation enacted during the session. Appropriations are those approved by the 1993 Legislature.

Table 3 lists 1995 biennium general fund appropriations for each agency, in descending order. As the table and Graph 1 show, human service agencies (the departments of Social and Rehabilitation Services, Family Services, and Corrections and Human Services) consume 40 percent of the general fund. Higher education and state support for K-12 education consume another 38 percent. Statutory appropriations account for another 7 percent. Only 15 percent of the total general fund is spent by the remaining 32 state agencies listed in Table 3.

While Table 3 shows \$218.6 million general fund appropriated for public schools and OPI, another \$685.3 million is spent from the school equalization account. As Graph 2 shows, state support for K-12 education is the state's largest single expenditure, comprising 49 percent of total spending from the combined total of general fund and SEA.

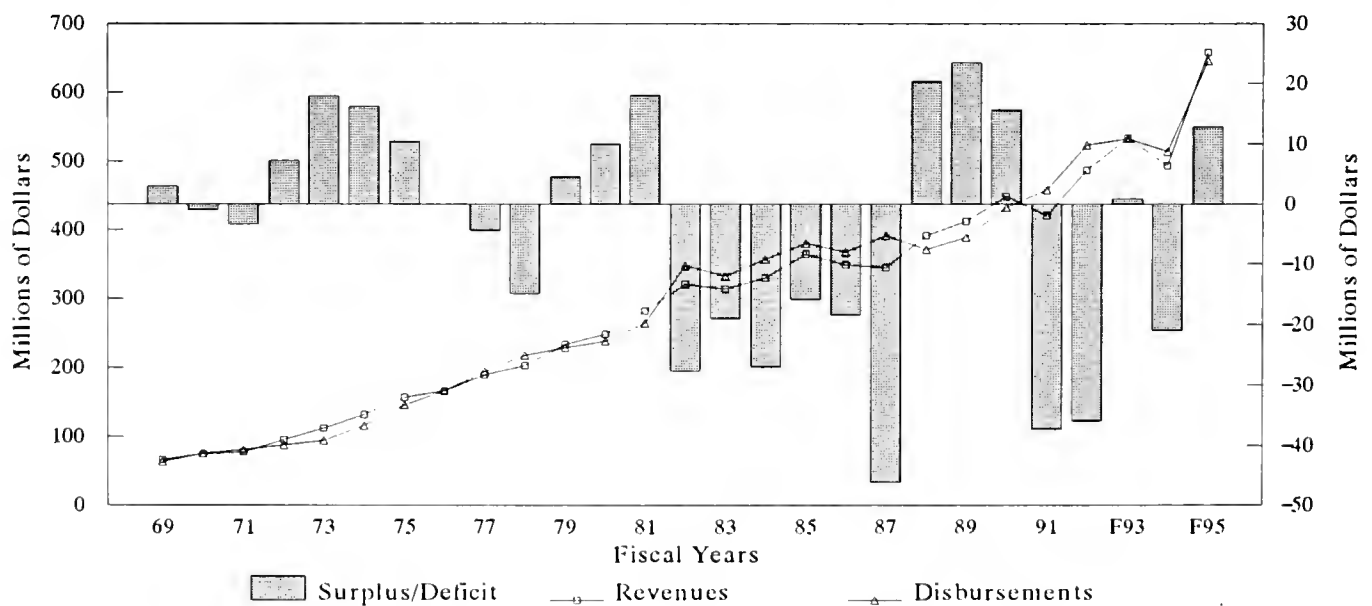
Table 4 shows all bills appropriating general fund enacted by the 1993 Legislature.

Graph 3 shows the \$5.5 billion in projected expenditures from all state accounts during the 1995 biennium. General fund spending accounts for 21 percent of total state spending, with expenditures from state special revenues accounts comprising 31 percent and from federal funds, 27 percent.

GENERAL FUND REVENUES AND EXPENDITURES

General Fund Summary Revenue and Disbursement History Figures In Millions

F Y	Annual Revenue	Biennium Revenue	Percent Change	Annual Disburse.	Biennium Disburse.	Percent Change	Surplus/ Deficit
69	\$66.707			\$63.790			\$2.917
70	74.627			75.616			(0.989)
71	78.011	\$152.637		81.300	\$156.916		(3.289)
72	95.177			87.957			7.220
73	112.570	207.747	36.10%	94.739	182.696	16.43%	17.830
74	131.757			115.544			16.213
75	156.642	288.398	38.82%	146.248	261.791	43.29%	10.394
76	166.346			166.341			0.005
77	189.879	356.225	23.52%	194.300	360.641	37.76%	(4.421)
78	203.245			218.094			(14.849)
79	233.361	436.605	22.56%	228.763	446.857	23.91%	4.597
80	248.132			238.168			9.964
81	282.527	530.658	21.54%	264.552	502.720	12.50%	17.975
82	320.259			347.901			(27.642)
83	313.575	633.834	19.44%	332.610	680.512	35.37%	(19.035)
84	330.305			357.387			(27.082)
85	364.522	694.827	9.62%	380.359	737.746	8.41%	(15.837)
86	348.434			366.815			(18.382)
87	345.174	693.607	-0.18%	391.325	758.140	2.76%	(46.151)
88	391.152			370.853			20.299
89	411.723	802.875	15.75%	388.270	759.123	0.13%	23.453
90	447.962			432.323			15.639
91	420.257	868.218	8.14%	457.612	889.935	17.23%	(37.356)
92	487.036			523.072			(36.036)
F93	532.946	1,019.982	17.48%	532.092	1,055.164	18.57%	0.854
F94	493.076			514.015			(20.939)
F95	657.680	1,150.756	12.82%	644.952	1,158.967	9.84%	12.728



GENERAL FUND REVENUES AND EXPENDITURES

Estimated General Fund Balance Figures In Millions

	Actual Fiscal 1992	Estimated Fiscal 1993	Estimated Fiscal 1994	Estimated Fiscal 1995	Estimated FY 92-93	Estimated FY 94-95
Beginning Fund Balance	\$58.700	\$24.486	\$32.501	\$11.562	\$58.700	\$32.501
Receipts						
Estimated Receipts	487.036	532.946	493.076	657.680	1,019.982	1,150.756
Total Available	\$545.736	\$557.432	\$525.577	\$669.242	\$1,078.682	\$1,183.257
Disbursements						
General Appropriations	478.573	448.208	470.581	468.682	926.781	939.263
School Equalization Account	12.100			124.910	12.100	124.910
Governor Elect Appropriation		0.050			0.050	
Pay Plan Appropriations			1.619	4.875		6.494
Statutory Appropriations						
Property Tax Reimbursement	19.092	19.339	18.336	18.336	38.431	36.672
Debt Service*	11.780	12.534	9.212	10.823	24.314	20.035
TRANS Interest	2.540	3.929	1.980	2.093	6.469	4.073
Retirement Benefits	3.194	3.509	3.769	4.045	6.703	7.814
District Court Reimbursement			3.812	3.397		7.209
Depository Banking Services			0.552	0.553		1.105
DUI Testing Equipment			0.050	0.050		0.100
Miscellaneous Appropriations		2.871	4.979	1.199	2.871	6.178
Continuing Appropriations		9.863			9.863	
Supplementals						
All Other Agencies		29.650			29.650	
School Equalization Account				1.864		1.864
Feed Bill		5.551		5.000	5.551	5.000
Reversions	(4.207)	(3.412)	(0.875)	(0.875)	(7.619)	(1.750)
Anticipated Disbursements	\$523.072	\$532.092	\$514.015	\$644.952	\$1,055.164	\$1,158.967
Adjustments	(2.058)	(0.855)			(2.913)	
Foundation Program Reversion						
Residual Equity Transfer	3.880	8.016		0.344	11.896	0.344
Ending Fund Balance	<u>\$24.486</u>	<u>\$32.501</u>	<u>\$11.562</u>	<u>\$24.634</u>	<u>\$32.501</u>	<u>\$24.634</u>
Ending Cash Balance	<u>(\$22.285)</u>	<u>(\$14.270)</u>	<u>(\$30.034)</u>	<u>(\$16.962)</u>	<u>(\$14.270)</u>	<u>(\$16.962)</u>

*During the 1995 biennium, the Department of Administration (DofA) will issue general obligation bonds for several major construction projects authorized by the legislature. The 1993 Legislature required that these bonds be issued "in a manner... that schedules the payment of principal and interest to minimize the aggregate amount of debt service on all general obligation bonds during the [1995] biennium and that takes into consideration interest earnings on the proceeds of the bonds." Since DofA has not yet determined the structure of these bonds, neither the debt service expense or the related investment earnings are shown in the table above.

GENERAL FUND REVENUES AND EXPENDITURES

Table 3
1995 Biennium General Fund Appropriations

Rank/Agency/Purpose	Appropriations	% of Total	Cumulative Appropriations	Cumulative %
1 Social & Rehabilitation Services	\$246,128,081	21.20%	\$246,128,081	21.20%
2 Higher Education	225,882,812	19.46%	472,010,893	40.67%
3 Public Schools*	211,908,071	18.26%	683,918,964	58.92%
4 Corrections & Human Services	153,387,711	13.21%	837,306,675	72.14%
5 Family Services	69,801,812	6.01%	907,108,487	78.15%
6 Revenue	41,230,401	3.55%	948,338,888	81.70%
7 Property Tax Reimbursement**	36,672,000	3.16%	985,010,888	84.86%
8 Justice	22,882,143	1.97%	1,007,893,031	86.83%
9 Debt Service**	20,035,000	1.73%	1,027,928,031	88.56%
10 State Lands	16,713,145	1.44%	1,044,641,176	90.00%
11 Judiciary	10,934,146	0.94%	1,055,575,322	90.94%
12 Health & Environmental Sciences	8,569,210	0.74%	1,064,144,532	91.68%
13 Retirement Benefits**	7,814,000	0.67%	1,071,958,532	92.35%
14 Administration	7,706,415	0.66%	1,079,664,947	93.02%
15 District Court Reimbursement**	7,209,000	0.62%	1,086,873,947	93.64%
16 Office of Public Instruction	6,760,101	0.58%	1,093,634,048	94.22%
17 Natural Resources & Conservation	6,652,337	0.57%	1,100,286,385	94.79%
18 Pay Plan	6,493,800	0.56%	1,106,780,185	95.35%
19 Feed Bill	5,000,000	0.43%	1,111,780,185	95.78%
20 School for the Deaf & Blind	4,965,335	0.43%	1,116,745,520	96.21%
21 Governor's Office	4,474,010	0.39%	1,121,219,530	96.60%
22 State Auditor	4,187,193	0.36%	1,125,406,723	96.96%
23 Legislative Council	4,150,665	0.36%	1,129,557,388	97.32%
24 TRANS Interest**	4,073,000	0.35%	1,133,630,388	97.67%
25 Military Affairs	3,983,632	0.34%	1,137,614,020	98.01%
26 Commerce	3,059,534	0.26%	1,140,673,554	98.27%
27 Historical Society	2,684,173	0.23%	1,143,357,727	98.50%
28 Legislative Auditor	2,624,893	0.23%	1,145,982,620	98.73%
29 Long Range Building	2,600,000	0.22%	1,148,582,620	98.95%
30 Library Commission	2,308,504	0.20%	1,150,891,124	99.15%
31 Legislative Fiscal Analyst	1,683,553	0.15%	1,152,574,677	99.30%
32 Labor & Industry	1,591,973	0.14%	1,154,166,650	99.44%
33 Depository Banking Services**	1,105,000	0.10%	1,155,271,650	99.53%
34 Agriculture	988,729	0.09%	1,156,260,379	99.62%
35 Crime Control Division	921,614	0.08%	1,157,181,993	99.70%
36 Livestock	895,658	0.08%	1,158,077,651	99.77%
37 Fish, Wildlife & Parks	627,042	0.05%	1,158,704,693	99.83%
38 Environmental Quality Council	554,348	0.05%	1,159,259,041	99.87%
39 Highway Traffic Safety	361,397	0.03%	1,159,620,438	99.91%
40 Montana Arts Council	252,728	0.02%	1,159,873,166	99.93%
41 Commissioner of Political Practices	245,736	0.02%	1,160,118,902	99.95%
42 Board of Public Education	212,997	0.02%	1,160,331,899	99.97%
43 Transportation	162,761	0.01%	1,160,494,660	99.98%
44 Secretary of State	121,814	0.01%	1,160,616,474	99.99%
45 DUI Testing Equipment**	100,000	0.01%	1,160,716,474	100.00%
46 Less Reversions	(1,750,000)		(1,750,000)	
Total	\$1,158,966,474	100.00%	\$1,158,966,474	

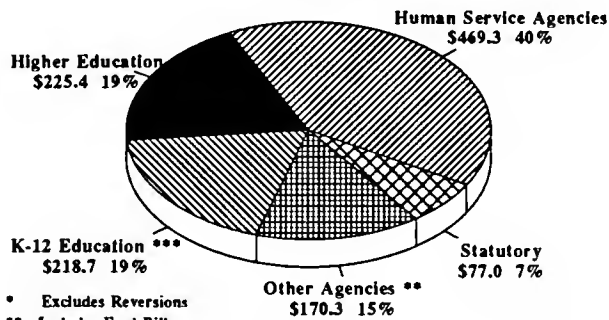
* Includes appropriations to OPI for schools in HB2, HB667, and estimated SEA supplemental

**Statutory appropriation

GENERAL FUND REVENUES AND EXPENDITURES

**1995 Biennium General Fund
Disbursements By Agency - \$1,160.7***

(In Millions)

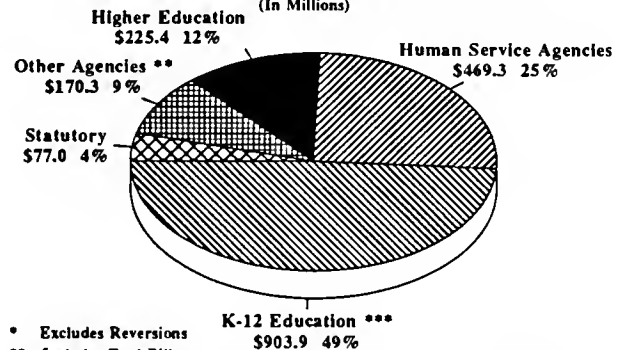


- * Excludes Reversions
- ** Includes Feed Bill
- *** Includes \$126.8 Million Transferred To SEA.

GRAPH 1

**1995 Biennium General Fund/SEA
Disbursements By Agency - \$1,846.0**

(In Millions)

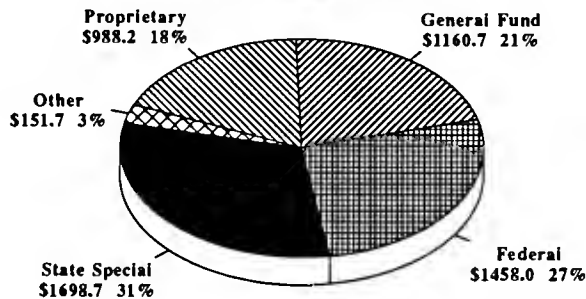


- * Excludes Reversions
- ** Includes Feed Bill
- *** Includes \$126.8 Million Transferred To SEA.

GRAPH 2

**1995 Biennium Total Funds
Disbursements - \$5,457.3***

(In Millions)



- * Includes Estimated Statutory Appropriations

GRAPH 3

GENERAL FUND REVENUES AND EXPENDITURES

Table 4
General Fund Appropriations
1993 Session

Bill No.	Description of Legislation	Fiscal 1993	Fiscal 1994	Fiscal 1995	Total 93-95
HB001*	Feed Bill	\$5,026,230			\$5,026,230
HB002	General Appropriations Act		\$470,581,261	\$468,681,512	939,262,773
HB003	FY93 Supplemental Appropriations	28,491,260			28,491,260
HB005*	Long Range Building Projects-Capital Projects		2,600,000		2,600,000
HB019*	Joint Oversight Committee on Children and Families		10,000		10,000
HB065*	Creates Statutory Retirement Committee		7,200		7,200
HB077	Funding for Department of Justice Legal Services	1,159,200			1,159,200
HB145	Health Care Authority		928,385	913,817	1,842,202
HB198	Pay Plan Bill		1,619,299	4,874,501	6,493,800
HB397	Revise Fees for Driving Records		178,200	195,000	373,200
HB428*	Extend Funding for Voluntary Genetics Program		1,069,299		1,069,299
HB643	Agricultural Tax Classification		111,000	90,000	201,000
HB667*	Revise School Funding K-12		124,910,000		124,910,000
HB667*	Interim Study On Taxes and Valuation (Legislative Council)		20,000		20,000
HB667*	Additional Audit Costs (Legislative Auditor)		40,000		40,000
SB077*	Continue Joint Committee on Postsecondary Education Policy and Budget		15,000		15,000
General Fund Appropriation Totals		\$34,676,690	\$602,089,644	\$474,754,830	\$1,111,521,164

*Continuing Appropriations

COMPARISON WITH EXECUTIVE BUDGET

Racicot Budget

As provided in section 17-7-121, MCA, incoming Governor Racicot issued amendments to former Governor Stephens' Executive Budget for the 1995 biennium. A detailed analysis of the Racicot budget is provided in Volume III of the Budget Analysis, 1995 Biennium.

Following is a comparison of legislative action with the Racicot budget, which is called the Executive Budget throughout this narrative.

Lower Spending

The state budget approved for the 1995 biennium by the 1993 Legislature was lower than recommended in the Executive Budget: \$40.1 million lower in general fund and \$87.7 million lower in total spending. This is a significant change from the previous three biennia, when legislative appropriations exceeded Executive Budget recommendations. Table 1 compares executive general fund recommendations and legislative appropriations for the last four biennia.

Table 1 Executive Recommendation/Legislative Appropriation* General Fund Fiscal 1989 Through Fiscal 1995 (Millions)			
Biennium	Executive** Recommendation	Legislative*** Appropriation	Leg. less Exec. Difference
1989	\$724.5	\$748.9	\$24.2
1991	808.4	833.6	25.2
1993	959.7	1,005.0	45.3
1995	1,072.3	1,032.2	(40.1)
*Excludes SEA transfers			
**Executive Budget with adjustments by incoming governors in appropriate years			
***From Appropriations Reports for regular sessions			

As Table 2 shows, the legislature approved \$40.1 million less spending from the general fund and \$5.7 million

higher spending from school equalization aid account (SEA) than recommended in the Executive Budget, for a net reduction of \$34.4 million.

COMPARISON WITH EXECUTIVE BUDGET

Table 2 Comparison of Legislative Action and Executive Budget on Expenditures General Fund/SEA, 1995 Biennium (Millions)			
	Executive	Legislature	Difference
<u>General Fund</u>			
State Agencies (HB2)	\$988.476	\$939.263	(\$49.213)
Pay Plan	4.996	6.494	1.498
Property Tax Reimbursement	41.030	36.672	(4.358)
Debt Service	26.467	20.035	(6.432)
Retirement Benefits	7.669	7.814	0.145
TRANS Interest	0.000	4.073	4.073
Feed Bill	5.100	5.000	(0.100)
Miscellaneous Appropriations	3.534	14.592	11.058
Reversions	(5.000)	(1.750)	3.250
Subtotal	\$1,072.272	\$1,032.193	(\$40.079)
<u>School Equalization Account</u>			
K-12 Equalization/GTB	805.977	801.902	(4.075)
Transportation	0.000	7.822	7.822
Other	0.315	2.300	1.985
Subtotal	806.292	812.024	5.732
TOTAL	\$1,878.564	\$1,844.217	(\$34.347)

State Agencies

Table 3 compares the executive general fund recommendation for each agency with legislative action

for the 1995 biennium. As the table shows, the legislature approved general fund budgets lower than the executive recommendation for 36 of 41 state agencies.

COMPARISON WITH EXECUTIVE BUDGET

<p style="text-align: center;">Table 3 Comparison of Executive Budget to Legislative Action on House Bill 2, 1995 Biennium (General Fund)</p>			
Agency	Executive Budget 1995 Biennium	HB 2 1995 Biennium	HB 2 Over (Under) Executive Budget
Legislative Auditor	\$2,598,280	\$2,584,893	(\$13,387)
Legislative Fiscal Analyst	1,730,163	1,668,553	(61,610)
Legislative Council	5,081,594	4,113,465	(968,129)
Environmental Quality Council	599,665	554,348	(45,317)
Judiciary	17,971,349	10,934,146	(7,037,203)
Governor's Office	5,271,791	4,474,010	(797,781)
Secretary of State	1,978,166	121,814	(1,856,352)
Commissioner of Political Practices	259,489	245,736	(13,753)
State Auditor	4,176,040	3,844,991	(331,049)
Office of Public Instruction	101,208,613	91,894,172	(9,314,441)
Vocational Technical Centers	16,542,158	16,155,744	(386,414)
Crime Control Division	954,871	921,614	(33,257)
Highway Traffic Safety	420,000	361,397	(58,603)
Justice	13,851,548	22,508,943	8,657,395
Public Service Regulation	4,510,522	0	(4,510,522)
Board of Public Education	233,586	212,997	(20,589)
Commissioner of Higher Education	(2,764,091)	21,271,883	24,035,974
Six University Units	174,111,570	166,501,579	(7,609,991)
Agricultural Experiment Station	15,906,390	14,490,727	(1,415,663)
Cooperative Extension Service	5,622,357	5,575,016	(47,341)
Forestry & Conserv Experiment Station	1,496,604	1,405,544	(91,060)
School for the Deaf and Blind	4,843,714	4,965,335	121,621
Montana Arts Council	285,635	252,728	(32,907)
Library Commission	2,277,597	2,308,504	30,907
Historical Society	2,840,319	2,684,173	(156,146)
Fire Services Training School	529,724	482,319	(47,405)
Fish, Wildlife and Parks	1,433,321	627,042	(806,279)
Health & Environmental Sciences	6,084,236	5,999,911	(84,325)
Transportation	172,227	162,761	(9,466)
State Lands	18,523,885	16,713,145	(1,810,740)
Livestock	1,550,223	895,658	(654,565)
Natural Resources & Conservation	7,629,694	6,652,337	(977,357)
Revenue	43,584,481	41,029,401	(2,555,080)
Administration	7,177,016	7,706,415	529,399
Agriculture	2,234,234	988,729	(1,245,505)
Corrections & Human Services	178,784,495	153,387,711	(25,396,784)
Commerce	4,902,093	3,059,534	(1,842,559)
Labor & Industry	2,347,624	1,591,973	(755,651)
Military Affairs	4,580,851	3,983,632	(597,219)
Social & Rehabilitation Services	249,971,163	246,128,081	(3,843,082)
Family Services	76,962,955	69,801,812	(7,161,143)
Total General Fund	\$988,476,152	\$939,262,773	(\$49,213,379)

COMPARISON WITH EXECUTIVE BUDGET

Many of these budget reductions resulted from cooperative efforts between the legislature and executive. At the request of appropriations subcommittees, agencies submitted proposals to meet the spending targets contained in House Resolution 2. Agency staff worked with subcommittees to prioritize programs, reorganize service delivery, and reduce program costs.

Some significant areas of reduction from the Executive Budget resulting from these cooperative efforts were:

1) \$25.4 million in the Department of Corrections and Human Services (DCHS). The executive requested that 280.31 new FTE be added to DCHS to operate the Eastern Montana Veterans' Home, staff a down-sized women's prison, and expand community corrections programs for male offenders. The legislature approved only 21.0 of the requested FTE. In addition, the legislature reduced current level operations by 57.33 more FTE than recommended by the executive. The legislature also used cigarette tax revenues to fund the operations of the Columbia Falls Veterans' Home and required private operations of the Eastern Montana Veterans' Home.

2) \$7.2 million in the Department of Family Services. The legislature eliminated inpatient hospital youth psychiatric care in free-standing psychiatric hospitals and changed the medicaid eligibility criteria ("family of one" rule), for a \$8.2 million general fund savings. These savings were partially offset by increased foster care rates, foster care support services, and at-risk day care.

3) \$3.8 million in the Department of Social and Rehabilitation Services. The legislature eliminated state support for general assistance and state medical programs, for a net state savings of \$10.6 million. These savings were partially offset by reducing the mill levy income that state-assumed counties must transfer to the state, rate increases for providers contracting with the Developmental Disabilities, Vocational Rehabilitation, and Visual Services divisions, and expanding in-home medicaid services to recipients who would otherwise be served in hospitals or nursing homes.

In several key areas, the legislature did not adopt executive recommendations for reductions. For example, the legislature concurred with the executive recommendation that fiscal 1992 actual expenditures, rather than the funding formula used by previous legislatures, be the base for developing the 1995 biennium budget for the university units. However, the legislature did not adopt the executive recommendation that the Montana University System (MUS) general fund appropriation be reduced \$25 million. In total, the legislature approved general fund appropriations for the MUS that were \$14.8 million higher than recommended in the Executive Budget.

Approximately \$17.5 million of the difference between the executive budget and legislative action is in funding switches and statutory appropriations. As Table 4 shows, the legislature used \$24.5 million of funding switches to offset general fund expenditures, compared to \$12.0 million recommended in the Executive Budget.

Table 4 Comparison of Funding Switches in Executive Budget and Legislative Action, General Fund (Millions)		
Agency	Executive	Legislative
Justice	\$14.2	\$4.7
Public Instruction	(7.7)	0.0
Natural Resources and Conservation	1.7	2.5
Commerce	1.0	1.9
School for the Deaf and Blind	0.8	0.1
State Lands	0.7	0.6
Social and Rehabilitation Services	(0.7)	2.5
Judiciary	0.6	0.4
Family Services	0.4	0.0
Transportation	0.4	0.1
Health and Environmental Services	0.4	1.4
Revenue	0.2	0.2
Public Service Commission	0.0	4.3
Secretary of State	0.0	1.7
Agriculture	0.0	1.0
Livestock	0.0	0.3
Corrections and Human Services	0	2.6
Other Agencies	0.0	0.2
Total	\$12.0	\$24.5

The legislature adopted several significant funding switches proposed by the executive:

1) Department of Justice. The executive proposed that the entire Motor Vehicle Division be funded from the combined highways account during the 1995 biennium, for a savings of \$14.2 million general fund. The legislature approved funding \$5.3 million of division costs from the combined highways account.

COMPARISON WITH EXECUTIVE BUDGET

2) House Bill 608. The executive proposed legislation reallocating the flow of Resource Indemnity Trust (RIT) tax revenues, allowing \$2.4 million additional to offset general fund in state agency budgets. The legislature approved this legislation and funding switch.

3) Department of Commerce. The executive proposed that several programs in the department (the Montana Science and Technology Alliance [MSTA] and Weights and Measures Bureau) be funded with revenues generated by the programs. The legislature adopted these recommendations. In addition, it included language in House Bill 2 stating its intent that MSTa be funded entirely through repayments from projects it financed.

4) Montana School for the Deaf and Blind (MSDB). The executive recommended that MSDB charge fees for the outreach services that it provides to local school districts and that it become a medicaid provider and bill eligible students for services which qualify for medicaid reimbursement. The legislature approved these recommendations.

In addition to a higher level of funding switches, the legislature enacted general fund statutory appropriations in the Judiciary, reducing general fund expenditures in House Bill 2 by \$6.5 million.

Despite these funding switches, total spending approved by the legislature in House Bill 2 is \$87.7 million less than recommended in the Executive Budget, as Table 5 shows.

Fewer FTE

The legislature funded 255.95 fewer FTE in House Bill 2 than requested by the executive.

As Table 6 shows, the largest difference is in DCHS. The legislature authorized 316.64 fewer FTE than requested by the executive, reflecting legislative decisions to require a private contractor to operate the Eastern Montana Veteran's Home, expand community corrections programs, and make changes in other state institutions. In the Department of Transportation, the legislature eliminated 70 current level FTE and approved fewer budget modification FTE than requested by the executive. In the Department of Revenue, the legislature transferred 12.0 FTE to the Department of Justice and eliminated some current level FTE.

These reductions were partially offset by authorization of higher numbers of FTE in the departments of Justice, Health and Environmental Sciences, and Social and Rehabilitation Services, and the State Fund. In SRS, the increase results from hiring additional staff for the Child Support Enforcement program, rather than contracting for services, as the executive recommended. The agency testified that hiring FTE was more cost-effective than training contracted workers. Implementation of workers compensation reform legislation enacted by the legislature added 32 FTE in the departments of Justice, Labor and Industry, and State Fund.

Table 5
Comparison of Total Spending in
Executive Budget and HB2, 1995 Biennium
(Millions)

	Executive	Legislative	Leg.-Exec.
General Fund	\$988.50	\$939.30	(\$49.2)
State Special	771.8	672.7	(99.1)
Federal	1437.7	1400	(37.7)
Proprietary	597.6	572.1	(25.5)
Other	4.8	128.6	123.8
Total	\$3,800.4	\$3,712.7	(\$87.7)

COMPARISON WITH EXECUTIVE BUDGET

Table 6
Comparison of FTE Authorized in General Appropriations Act*
With the Executive Budget
1995 Biennium

Agency**	Executive Budget FTE 1994	Executive Budget FTE 1995	Legislative Action FTE 1994	Legislative Action FTE 1995	Exec. - Legis. FY93-95
Legislative Auditor	63.50	63.50	63.50	63.50	0.00
Legislative Fiscal Analyst	17.00	17.00	16.80	16.80	(0.20)
Legislative Council	42.97	48.14	42.97	48.14	0.00
Environmental Quality Council	7.00	7.00	6.50	6.50	(0.50)
Consumer Counsel	5.25	5.25	5.25	5.25	0.00
Judiciary	92.50	92.50	89.25	89.25	(3.25)
Governor's Office	56.75	57.25	55.75	55.75	(1.50)
Secretary of State	33.55	33.55	34.30	34.30	0.75
Commissioner of Political Practices	3.25	3.25	3.25	3.25	0.00
State Auditor	67.67	67.67	72.75	73.00	5.33
Office of Public Instruction	141.23	141.23	141.23	141.23	0.00
Crime Control Division	18.00	18.00	19.00	19.00	1.00
Highway Traffic Safety	8.50	8.50	8.50	8.50	0.00
Department of Justice	619.40	606.90	659.80	651.80	44.90
Public Service Regulation	44.00	44.00	44.50	44.50	0.50
Board of Public Education	4.00	4.00	4.00	4.00	0.00
Comm. of Higher Education	83.45	86.45	84.95	87.95	1.50
School for the Deaf & Blind	81.68	81.68	81.68	81.68	0.00
Montana Arts Council	9.97	9.97	9.97	9.97	0.00
Library Commission	27.98	27.98	28.50	28.50	0.52
Council on Vocational Education	2.50	2.50	2.50	2.50	0.00
Historical Society	50.38	50.38	48.63	48.63	(1.75)
Dept. of Fish, Wildlife, & Parks	562.01	560.43	554.95	553.37	(7.06)
Dept. of Health & Env. Sciences	425.50	427.05	451.04	456.09	29.04
Dept. of Transportation	2,005.62	2,005.62	1,933.75	1,933.75	(71.87)
Dept. of State Lands	364.25	364.84	358.27	360.36	(4.48)
Dept. of Livestock	120.71	122.21	122.71	123.71	1.50
Dept. of Nat. Resources & Cons.	250.42	249.92	244.42	244.42	(5.50)
Dept. of Revenue***	682.39	682.39	669.39	659.89	(22.50)
Dept. of Administration	318.32	322.32	311.26	315.26	(7.06)
Public Employees' Retirement Brd.	21.00	21.00	22.00	21.00	0.00
Teachers' Retirement Board	11.50	11.50	11.50	11.50	0.00
Dept. of Agriculture	98.09	96.76	97.26	95.93	(0.83)
Dept. of Corr. & Human Services	2,053.81	2,188.69	1,882.05	1,872.05	(316.64)
Dept. of Commerce	333.81	334.81	337.81	338.81	4.00
Dept. of Labor and Industry	650.10	650.10	659.00	659.00	8.90
State Mutual Insurance Fund	224.50	227.50	233.75	238.75	11.25
Dept. of Military Affairs	105.25	104.50	99.40	98.65	(5.85)
Dept. of Social & Rehab. Services	903.20	903.20	944.45	988.45	85.25
Dept. of Family Services	576.33	576.33	607.18	574.93	(1.40)
Total FTE	11,187.34	11,325.87	11,063.77	11,069.92	(255.95)

* Excludes FTE which may be added through budget amendments, legislative contract authority, or other operational changes.

** Excludes University System

***Excludes liquor store employees and additional FTE authorized had Senate Bill 235 been approved by the electorate.

COMPARISON WITH EXECUTIVE BUDGET

School Foundation Program

The Executive Budget recommended that state support for the foundation program be reduced by \$25.9 million during the 1995 biennium. It proposed that current foundation schedules be reduced by 5 percent and the guaranteed tax base (GTB) aid be extended to a portion of the voted levy to offset the foundation program reduction.

The 1993 Legislature adopted a new school equalization system that: establishes basic and per-ANB entitlement for each school district, establishes minimum and maximum budget range limits for districts, and expands GTB support for eligible districts. The Office of the Legislative Auditor estimates the new equalization system will cost \$30.0 million less in the 1995 biennium than the previous system would have cost.

Total legislative appropriations from SEA are higher than the Executive Budget because:

- 1) the executive recommended that total state support for transportation be funded from the general fund, rather than the SEA. The legislature continued funding \$7.8 million of transportation costs from the SEA.

- 2) the legislature approved \$2.3 million of additional spending from the SEA for the SIMMS grant, METNET educational costs of children in residential treatment, and implementation costs of the new school equalization bill.

Other Initiatives

The executive proposed and the legislature approved an incentive for employees that retire during the period

June 25 through December 31, 1993. Under the incentive, agencies must purchase up to three years additional service for eligible retiring employees, at a cost of up to 40.2 percent of the employee's final year's salary. The executive estimated that the retirement incentive would save \$3.0 million general fund during the 1995 biennium despite higher initial costs for agencies, since it plans to ensure that vacated positions be eliminated or filled at a lower salary. The MUS requested that MUS employees covered by the Teachers' Retirement System (TRS) be included in the incentive. A cash payment will be provided to retiring TRS members under the incentive. (For further discussion of the proposal, see "Retirement Incentive".)

The Executive Budget recommended that the Montana Science and Technology Alliance (MSTA) program be authorized to invest an additional \$23.5 million of the permanent coal tax trust in loans to Montana businesses. It also recommended that MSTA's operating expenses be funded from loan repayment revenues, augmented with coal tax interest earnings. The legislature adopted a portion of these recommendations, authorizing MSTA to invest an additional \$11 million of the trust principal in Montana businesses and changing MSTA's funding. However, the legislature included language in House Bill 2 stating its intent that the MSTA be funded only with loan repayment revenues. It also required the university system to pay at least \$250,000 per year on its MSTA loans.

Smaller Revenue Increases

As Table 7 shows, the revenue increases enacted by the legislature to fund the projected deficits in four major accounts were \$147.1 million less than recommended in the Executive Budget.

COMPARISON WITH EXECUTIVE BUDGET

Table 7
Comparison of Executive Budget and
Legislative Action on Revenue Proposals
(Millions)

	Executive Budget	Legislature	Leg.-Exec. Difference
<u>General Fund/SEA</u>			
Sales Tax (net revenue)	\$131.400	\$0.000	(\$131.400)
Earmarking G.F. Revenue (HB 17/70/394)	(4.300)	(1.569)	2.731
HB 671 - Income Tax Revision	0.000	72.704	72.704
Net Other Bills	0.000	(6.460)	(6.460)
Coal Board Proposal (HB350)	5.000	3.300	(1.700)
Timber Proposal (HB 667/HB 652)	8.000	5.832	(2.168)
PILT Proposal	<u>11.432</u>	<u>0.000</u>	<u>(11.432)</u>
Subtotal	\$151.532	\$73.807	(\$77.725)
<u>Combined Highways Account</u>			
Fuel Tax Increase (SB257)	78.700	57.292	(21.408)
Other Bills (net)	<u>0.000</u>	<u>3.309</u>	<u>3.309</u>
Subtotal	78.700	60.601	(18.099)
<u>Workers' Compensation</u>			
Payroll Tax (HB504)	99.700	48.400	(51.300)
TOTAL	<u>\$329.932</u>	<u>\$182.808</u>	<u>(\$147.124)</u>

General Fund

The Executive Budget proposed using \$131.4 million of sales tax revenue to fund the general fund. While the 1993 Legislature submitted a referendum containing a sales tax reform bill to the electorate, the revenue generated by the tax was not used to balance the state budget during the 1995 biennium. Instead, the legislature enacted an income and corporation tax revision (House Bill 671), estimated to produce an additional \$72.7 million for the general fund and SEA during the 1995 biennium. The legislature provided coordinating language repealing House Bill 671 in tax year 1994 if voters approved the referendum. However, the electorate defeated the referendum on June 8, 1993.

The Executive Budget proposed several bills that required the revenue previously deposited in the general fund be deposited in state special revenue accounts. The programs generating the revenues would then be funded from these accounts, rather than from the general fund. The legislature approved several of these funding switches. In addition, the legislature enacted several minor revenue changes (discussed in "General Fund Revenue Components") that increased general fund and SEA revenues by a net \$1.1 million.

The Governor vetoed one revenue measure enacted by the 1993 Legislature. House Bill 591, which increased the accommodations tax from 4 percent to 5 percent, would have increased general fund revenues by an estimated \$1.9 million during the 1995 biennium.

COMPARISON WITH EXECUTIVE BUDGET

SEA

The Executive Budget proposed two reallocations of existing revenue to the SEA: 1) eliminating Coal Board grants and depositing the unspent coal tax funds in the SEA; and 2) making permanent the diversion of state timber revenue from the common school trust to the SEA. During the January 1992 special session, the legislature approved this diversion for the 1993 biennium only.

The legislature approved these reallocations, with some modifications. By restricting the areas eligible for Coal Board grants and limiting the percentage of grants that could be awarded to non-designated areas, the legislature continued the Coal Board program but estimated that \$3.3 million of unspent coal tax funds would be deposited in the SEA during the biennium. The legislature continued the diversion of state timber sales revenue into the SEA. The legislative estimate of the impact of the proposal reflects HJR3 revenue estimates and the loss of interest earnings from the common school trust.

The executive also recommended that all federal revenue sharing funds now received by counties be sent to the state for deposit in the SEA, resulting in increased federal payment-in-lieu-of-taxes (PILT) payments to counties in succeeding years. The executive recommended that during the 1995 biennium counties be reimbursed from the highways account for revenues lost as a result of this proposal. The legislature did not approve this proposal.

Combined Highways Account

The Executive Budget proposed a motor fuels tax increase of 5 cents in fiscal 1994 and an additional 5 cents in fiscal 1995. The legislature approved a smaller tax increase of 4 cents in fiscal 1994 and an additional

3 cents in fiscal 1995. The legislature also approved several other bills revising gross vehicle weight fees, motor fuels taxes, and special fuels tax collections. These bills are anticipated to increase revenues into the combined highways account by \$60.6 million during the 1995 biennium.

Workers' Compensation

The Executive Budget proposed increasing the payroll tax and imposing it on both employees and employers to ensure the solvency of the old fund. While the executive did not recommend a specific tax rate, it calculated that \$99.7 million additional revenue would be needed to keep the old fund solvent.

The 1993 Legislature adopted the executive recommendation. It increased the tax on employers to 0.5 percent, and imposed a tax on employees of 0.2 percent and a phased-in tax on the self-employed of 0.2 percent. This increase will raise an anticipated \$48.4 million additional revenue during the 1995 biennium. Approximately \$39.4 million in loans from the new fund will be necessary to ensure the solvency of the old fund during this period.

Fund Balances

Based on legislative revenue estimates and appropriations, the projected fund balance in the general fund is \$24.6 million at the end of fiscal 1995, which is slightly less than the \$35.9 million projected in the Executive Budget. However, because the Executive Budget relied on sales tax revenue to balance the budget, its fiscal 1994 cash balance was extremely low (\$2.6 million). Revenue bills and budget reductions enacted by the legislature resulted in a more even match of revenue and disbursements, resulting in a projected fund balance of \$11.6 million at the end of fiscal 1994.

ECONOMIC OVERVIEW

Introduction

The budget for the State of Montana for the 1995 biennium depends upon the current and future economic condition of the state, nation, and world. These conditions not only affect tax receipts, they dictate the costs of goods and services purchased by state government. Clearly, economic assumptions are a vital component in formulating the biennial budget.

The key economic variables that affect state government receipts and disbursements are Montana total personal income, Montana employment levels, inflation rates, energy prices, and interest rates.

The 1991 Legislature appropriated funds to the Office of Budget and Program Planning

(OBPP) to contract with an economic reporting and forecasting firm. Wharton Econometrics, the firm selected for this purpose, provides short and long-term econometric forecasts to the OBPP and Legislative Fiscal Analyst (LFA). These forecasts were incorporated in the revenue forecasts whenever appropriate.

The economic assumptions used in preparing these revenue forecasts for fiscal 1993 through 1995 are as adopted by the Fifty-third Legislature in House Joint Resolution 3, "A Joint Resolution of the Senate and the House of Representatives Establishing an Official Estimate of the State's Anticipated Revenue for Each Year of the 1994-5 Biennium." Adopted in accordance with Section 5-18-107, MCA, House Joint Resolution 3 is contained in Appendix 2 of Volume II of this report.

ECONOMIC OVERVIEW

Personal Income

Montana's total personal income is defined as labor income, transfer payments, dividends, interest and rents, less personal contributions for social security. This variable is critical in budget development because of its impact on state government tax receipts and disbursements. Total personal income not only limits the growth in government disbursements, it also reflects the ability of the people of Montana to purchase food, clothing, automobiles, and other items. Collections of personal income tax, corporate income tax, and many other taxes, such as liquor and insurance, are affected by personal income levels.

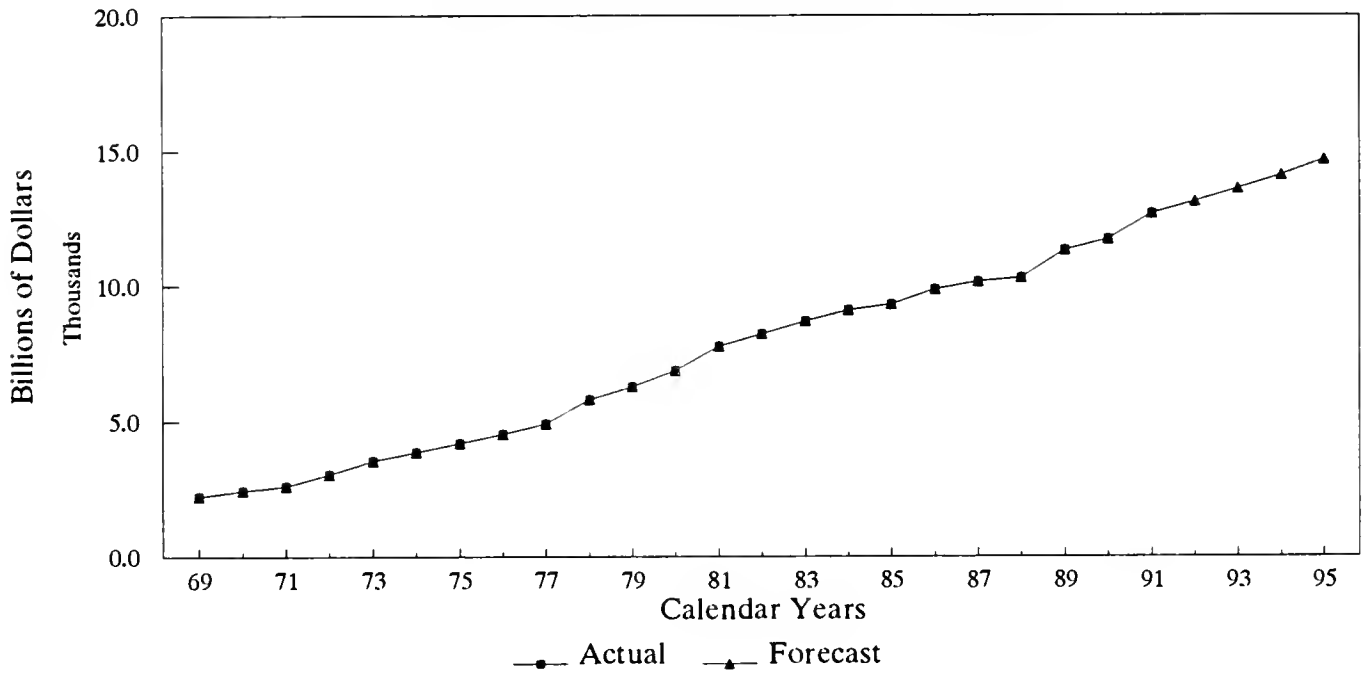
From 1971 to 1991, total personal income increased 385 percent in Montana versus 442 percent nationally. The state's per capita income for 1991 was \$15,675 compared with the national figure of \$19,092. As shown in the table that follows, Montana's growth in total personal income is expected to continue to lag national income growth. This trend is premised on slow economic growth and the continued shift in employment from basic industries to the service sectors.

The following tables summarize personal income statistics for Montana and the United States.

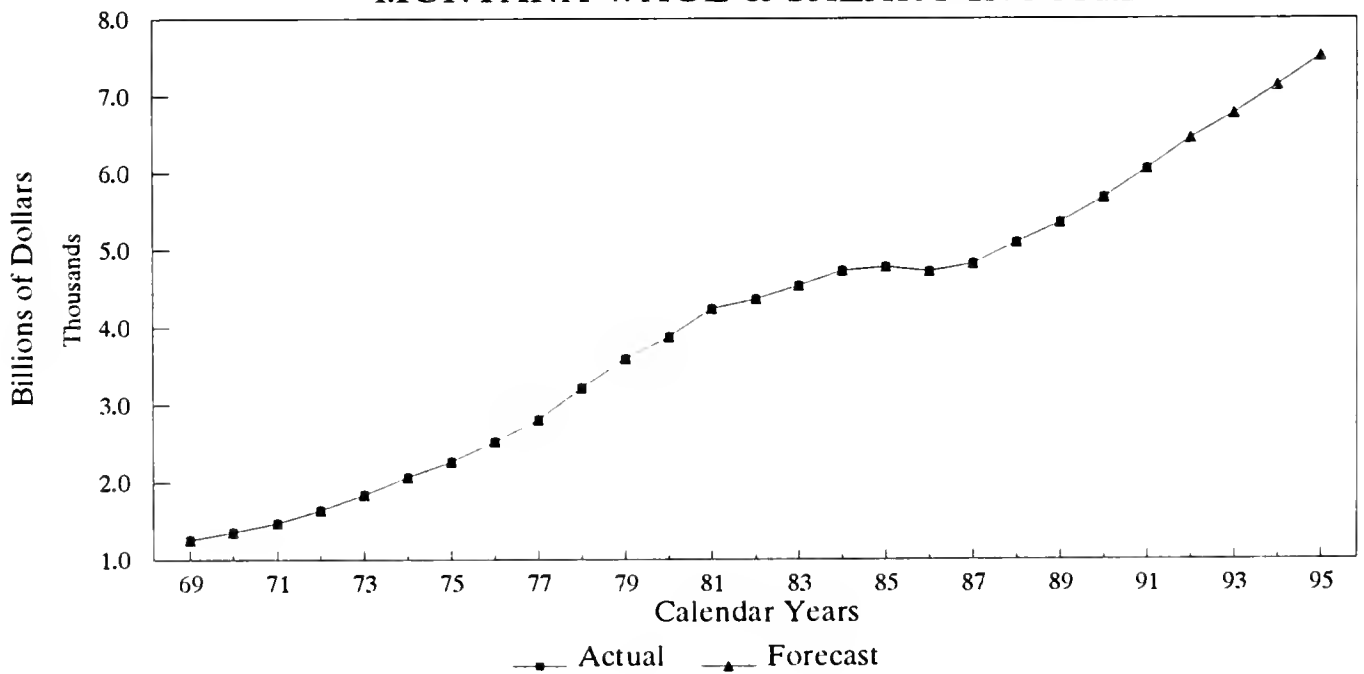
Year	Montana Personal Income	Percent Change	Montana Disposable Income	Percent Change	Montana Wage&Salary Income	Percent Change	US Personal Income	Percent Change
A 71	\$2,610.455		\$2,289.569		\$1,471.340		\$888.002	
A 72	3,039.346	16.43%	2,665.658	16.43%	1,640.168	11.47%	974.980	9.79%
A 73	3,540.089	16.48%	3,104.740	16.47%	1,837.878	12.05%	1,092.270	12.03%
A 74	3,839.886	8.47%	3,367.615	8.47%	2,065.305	12.37%	1,200.646	9.92%
A 75	4,191.310	9.15%	3,675.753	9.15%	2,266.338	9.73%	1,302.609	8.49%
A 76	4,513.702	7.69%	3,958.430	7.69%	2,519.223	11.16%	1,442.315	10.73%
A 77	4,899.413	8.55%	4,296.621	8.54%	2,806.648	11.41%	1,597.059	10.73%
A 78	5,808.967	18.56%	5,094.096	18.56%	3,212.836	14.47%	1,802.908	12.89%
A 79	6,278.406	8.08%	5,505.679	8.08%	3,590.959	11.77%	2,025.153	12.33%
A 80	6,879.179	9.57%	6,032.400	9.57%	3,870.699	7.79%	2,259.383	11.57%
A 81	7,765.220	12.88%	6,809.211	12.88%	4,234.895	9.41%	2,526.424	11.82%
A 82	8,215.699	5.80%	7,204.149	5.80%	4,360.953	2.98%	2,684.308	6.25%
A 83	8,699.987	5.89%	7,628.722	5.89%	4,540.592	4.12%	2,858.617	6.49%
A 84	9,110.912	4.72%	7,988.975	4.72%	4,729.290	4.16%	3,145.329	10.03%
A 85	9,312.901	2.22%	8,166.055	2.22%	4,781.796	1.11%	3,369.099	7.11%
A 86	9,873.191	6.02%	8,657.246	6.02%	4,718.185	-1.33%	3,580.700	6.28%
A 87	10,144.017	2.74%	8,894.671	2.74%	4,820.142	2.16%	3,790.116	5.85%
A 88	10,299.215	1.53%	9,030.727	1.53%	5,091.797	5.64%	4,063.785	7.22%
A 89	11,306.427	9.78%	9,913.703	9.78%	5,349.363	5.06%	4,368.495	7.50%
A 90	11,708.850	3.56%	10,266.483	3.56%	5,680.296	6.19%	4,649.706	6.44%
A 91	12,672.947	8.23%	11,111.642	8.23%	6,048.060	6.47%	4,814.495	3.54%
F 92	13,122.043	3.54%	11,505.329	3.54%	6,452.000	6.68%	5,052.000	4.93%
F 93	13,589.206	3.56%	11,914.852	3.56%	6,770.729	4.94%	5,338.500	5.67%
F 94	14,095.474	3.73%	12,358.651	3.72%	7,130.932	5.32%	5,698.200	6.74%
F 95	14,669.801	4.07%	12,862.108	4.07%	7,504.592	5.24%	6,082.700	6.75%

ECONOMIC OVERVIEW

MONTANA PERSONAL INCOME



MONTANA WAGE & SALARY INCOME



ECONOMIC OVERVIEW

Employment

Total state employment measures the ability of the state's economic base to provide jobs for its residents.

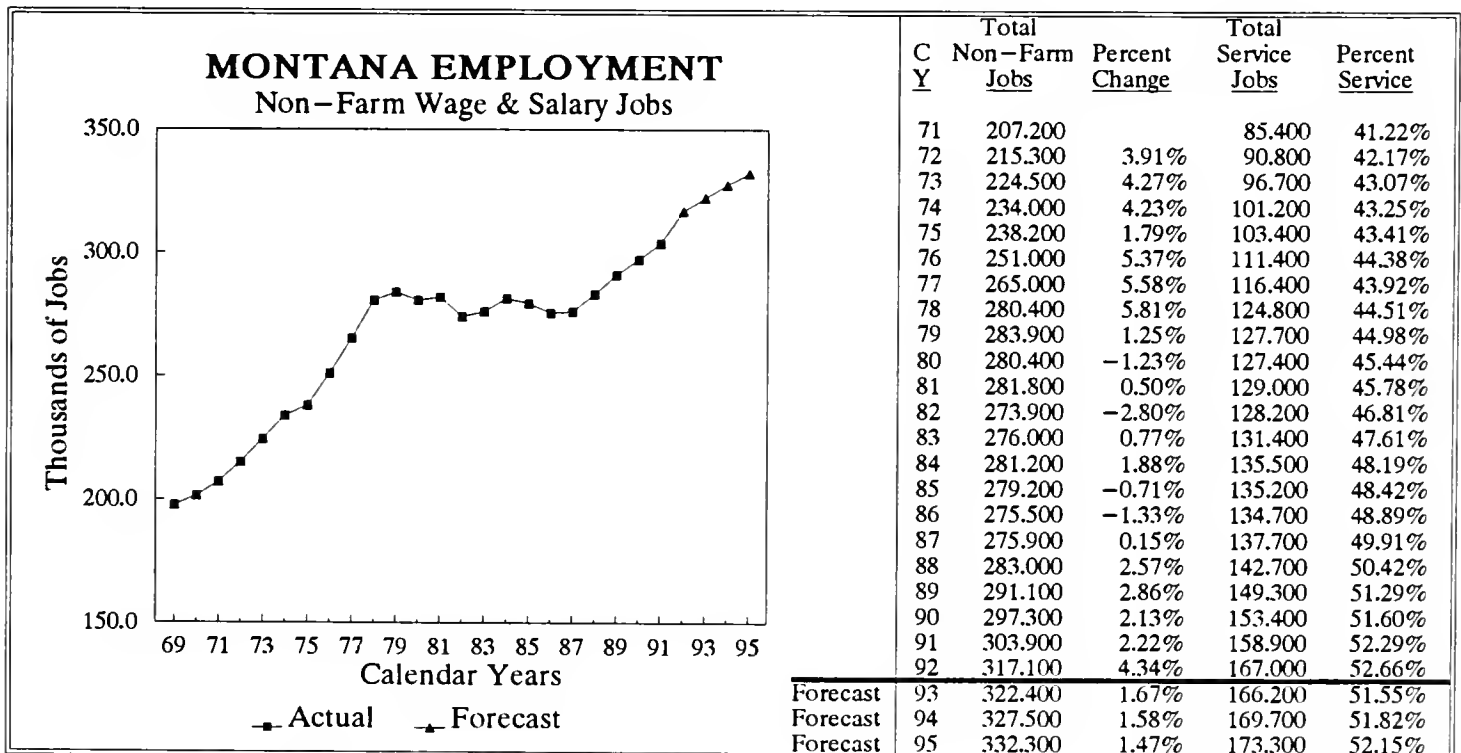
When forecasting state revenues, nonfarm wage and salary employment is used as a proxy for employment levels. Even though this statistic does not include all employment, it does provide a consistent indicator of the relevant labor market.

Employment levels in the state affect wage and salary income and are also indicative of the state's business activity. The relationship among wage and salary income, consumer spending, and, ultimately, corporate profits explains why personal income, corporate income, and sumptuary taxes are affected by changes in this variable.

From 1971 to 1992, Montana's nonfarm wage and salary employment grew by about 47 percent or 109,900 jobs. Almost all of this increase was in the wholesale/retail trade and service sectors. Traditionally, these jobs have been at the lower end of the pay scale. In the 1980's, the manufacturing, mining, construction, and transportation sectors experienced decreased employment. These jobs tended to have higher than average salaries.

The table below provides historical and forecast values for nonfarm wage and salary employment. Employment is expected to increase approximately 1.6 percent per year in 1993 through 1995. Most of the growth is expected in the services sector.

Since 1971, the average annual growth rate in employment has been 2.0 percent. The majority of this growth occurred in the 1970's. After stagnating during the 1980's, job growth in the 1990's is expected to increase once again.



ECONOMIC OVERVIEW

Energy Prices

Montana has a vast potential for oil, coal, and natural gas exploration and extraction. Because of this potential and our current level of natural resource taxation, energy prices play a critical role in the budgetary process. Oil, coal, and natural gas severance taxes are directly affected by energy prices.

Oil

Oil well-head prices are expected to average \$17.70 per barrel during calendar year 1993 and rise slightly to \$18.20 per barrel during calendar years 1994 and \$18.50 in calendar 1995. The relatively low price per barrel reflects the continued oversupply in world markets.

Natural Gas

Under the Natural Gas Policy Act of 1978, prices for all new gas were deregulated on January 1, 1985. As was anticipated, prices decreased with deregulation, due to contract renegotiations, lower import prices primarily from Canada, and the competitive prices of other fuels. Average natural gas well-head prices are expected to increase throughout the forecast period.

Natural gas surpluses are expected to begin diminishing and world oil prices are expected to be higher. With a more limited supply and more competitively priced fuels, well-head prices should begin to rise.

Coal

The coal industry in Montana and the rest of the United States is heavily dependent upon demand for electrical power. Slow economic growth at both the state and national levels, combined with energy conservation, may contribute to slower electrical usage growth.

With low demand and the competitive prices of other fuels, coal prices have remained soft. These conditions, in conjunction with a shift from long-term contracts to spot market sales, have caused prices to decrease since calendar 1983. Because of the soft market, it is assumed coal companies will hold prices relatively constant to maintain competitiveness with other fuels.

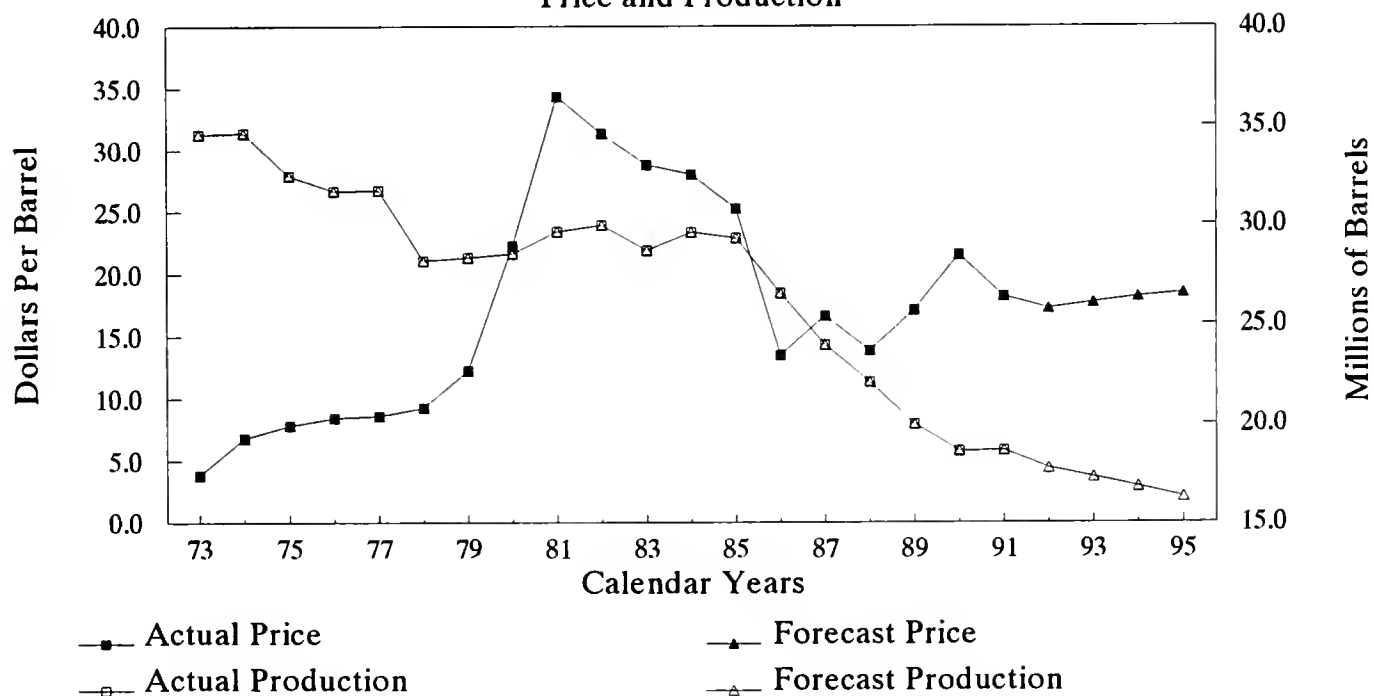
The following tables provide historical and projected energy prices for oil, coal, and natural gas. Historical data reflects data reported on tax returns, while forecasts are those adopted in House Joint Resolution 3.

ECONOMIC OVERVIEW

Year	Montana Oil Price	Montana Oil Production	Percent Change	Montana Coal Price	Montana Coal Production	Percent Change	Montana Natural Gas Price	Montana Natural Gas Production	Percent Change
A 73	\$3.843	34.558							
A 74	6.814	34.629	77.31%						
A 75	7.845	32.460	15.13%		22.076				
A 76	8.411	31.698	7.21%	\$4.415	26.226				
A 77	8.582	31.725	2.03%	4.344	27.205	-1.61%			
A 78	9.253	28.164	7.82%	5.154	26.418	18.65%			
A 79	12.279	28.337	32.70%	6.951	32.350	34.87%			
A 80	22.250	28.539	81.20%	7.724	29.752	11.12%			
A 81	34.317	29.639	54.23%	8.686	33.188	12.45%			
A 82	31.311	29.944	-8.76%	9.758	26.815	12.34%	\$2.067	44.655	
A 83	28.804	28.695	-8.01%	10.332	25.785	5.88%	2.287	43.456	10.66%
A 84	28.066	29.602	-2.56%	9.846	30.359	-4.70%	2.355	44.079	2.96%
A 85	25.243	29.318	-10.06%	9.592	31.213	-2.58%	2.175	44.330	-7.63%
A 86	13.518	26.525	-46.45%	8.387	32.416	-12.56%	1.919	39.444	-11.78%
A 87	16.631	23.961	23.03%	8.240	32.847	-1.75%	1.438	39.690	-25.05%
A 88	13.843	22.064	-16.76%	7.385	36.879	-10.38%	1.503	45.126	4.52%
A 89	17.098	19.957	23.51%	7.209	34.469	-2.38%	1.659	45.595	10.37%
A 90	21.561	18.613	26.10%	7.486	34.884	3.84%	1.640	44.989	-1.14%
A 91	18.209	18.619	-15.55%	7.913	35.325	5.70%	1.503	47.044	-8.38%
F 92	17.283	17.752	-5.09%	7.382	36.549	-6.71%	1.512	47.360	0.63%
F 93	17.700	17.314	2.41%	7.554	34.993	2.33%	1.663	47.940	10.00%
F 94	18.199	16.822	2.82%	7.610	34.447	0.74%	1.862	48.756	11.93%
F 95	18.500	16.320	1.65%	7.780	34.347	2.23%	2.079	49.388	11.68%

MONTANA OIL STATISTICS

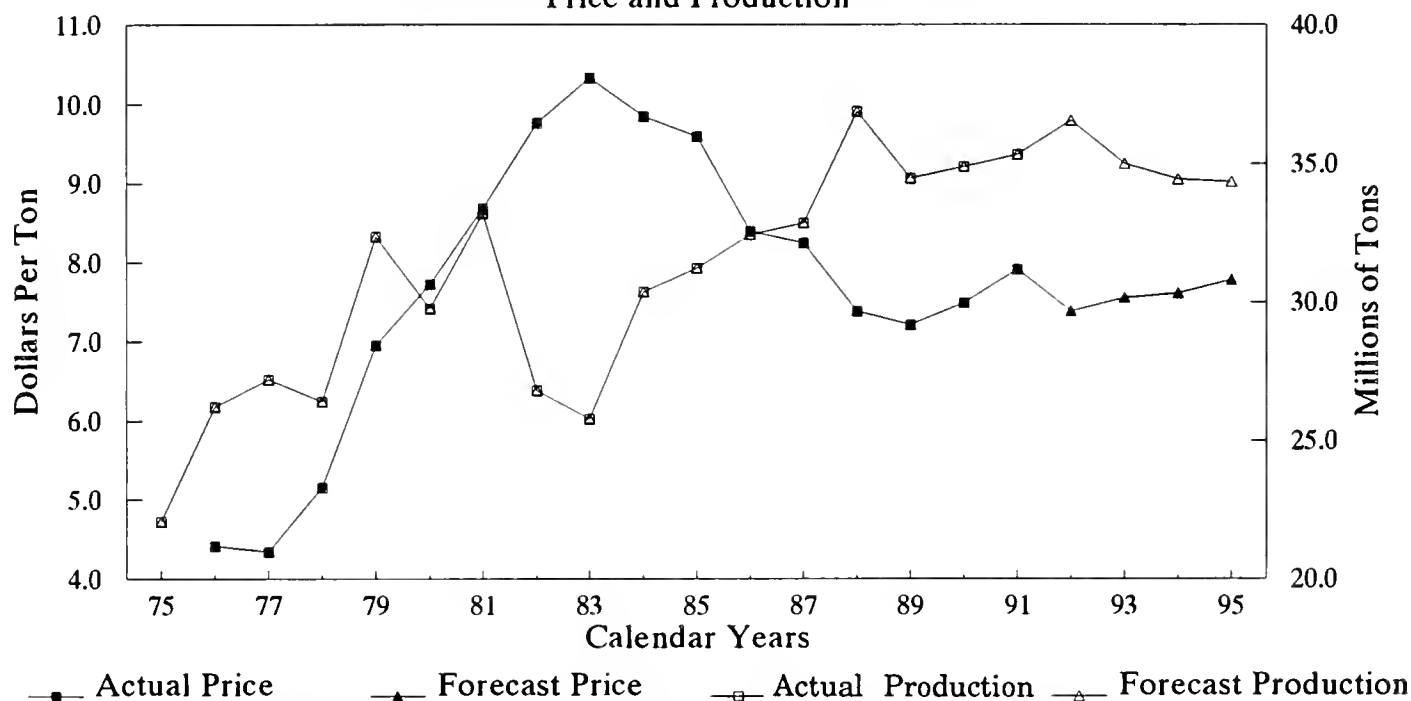
Price and Production



ECONOMIC OVERVIEW

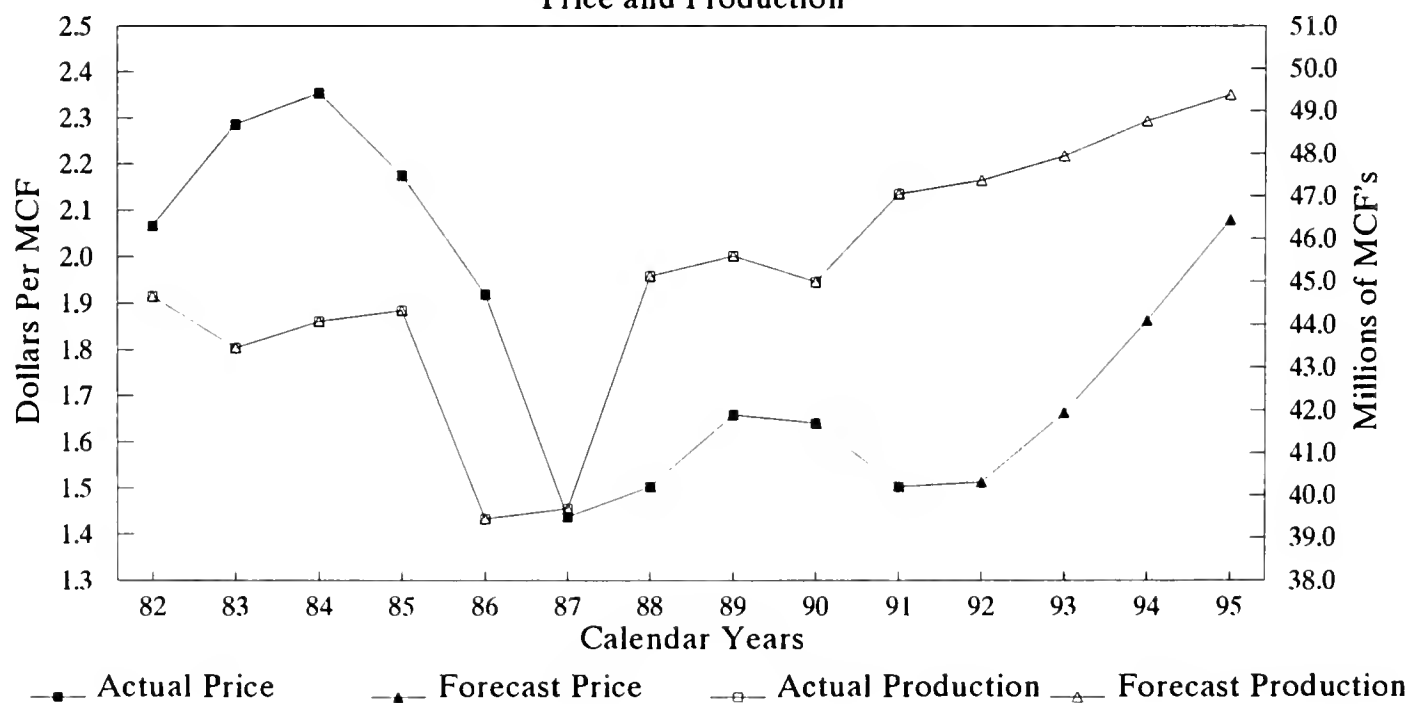
MONTANA COAL STATISTICS

Price and Production



MONTANA NATURAL GAS STATISTICS

Price and Production



ECONOMIC OVERVIEW

Interest Rates

Interest rates are highly susceptible to federal policies and the actions of the Federal Reserve Board. Critical factors affecting interest rates include the Federal Reserve's philosophy on monetary policy, the federal deficit, and changes in the value of the dollar.

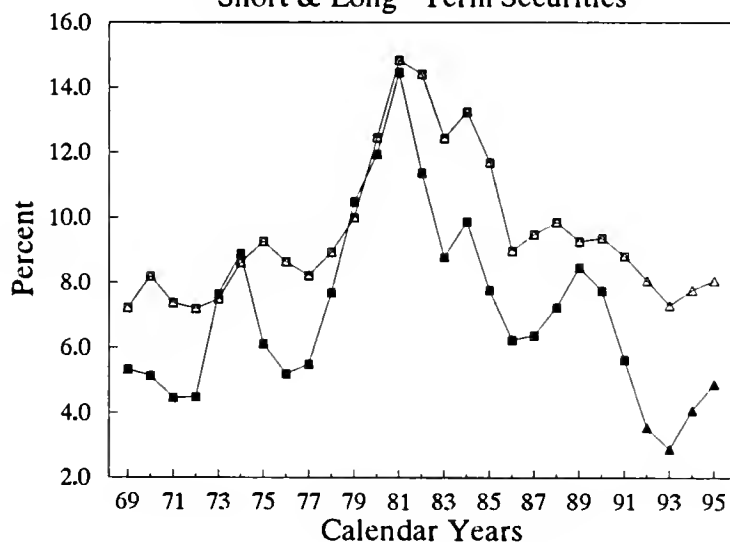
Interest rates declined sharply in calendar 1991 and calendar 1992, reaching the lowest levels in twenty years.

Interest rates directly affect Montana's investment earnings from both short and long-term securities. In addition, these rates impact other tax sources by influencing economic conditions such as construction activity, consumer spending, and business borrowing.

The following table provides historical interest rates as provided by Wharton Econometrics. Also presented in the table are the projected interest rates adopted in House Joint Resolution 3.

Interest rates are expected to decline further in calendar 1993 and then rise moderately throughout calendar 1994 and calendar 1995. Federal Reserve policy is expected to result in slow monetary growth. Recent indications of bank loan growth in the construction, commercial, and industrial sectors provides evidence that the national economy is recovering from the 1991-1992 recession. However, the growth in loan demand will be modest by historical standards due to excess real estate capacity and high private debt. As a result, the increase in interest rates throughout calendar 1994 and calendar 1995 will be modest.

AVERAGE INTEREST RATES
Short & Long-Term Securities



C Y	Average Short Rates	Percent Change	Average Long Rates	Percent Change
71	4.47		7.37	
72	4.49	0.45%	7.19	-2.44%
73	7.64	70.16%	7.50	4.31%
74	8.91	16.62%	8.60	14.67%
75	6.11	-31.43%	9.27	7.79%
76	5.21	-14.73%	8.64	-6.80%
77	5.49	5.37%	8.22	-4.86%
78	7.68	39.89%	8.95	8.88%
79	10.50	36.72%	10.00	11.73%
80	11.94	13.71%	12.46	24.60%
81	14.48	21.27%	14.84	19.10%
82	11.37	-21.48%	14.42	-2.83%
83	8.78	-22.78%	12.42	-13.87%
84	9.89	12.64%	13.25	6.68%
85	7.77	-21.44%	11.69	-11.77%
86	6.23	-19.82%	8.98	-23.18%
87	6.37	2.25%	9.49	5.68%
88	7.23	13.50%	9.87	4.00%
89	8.48	17.29%	9.27	-6.08%
90	7.74	-8.73%	9.38	1.19%
91	5.63	-27.26%	8.82	-5.97%
Forecast 92	3.55	-36.94%	8.06	-8.62%
Forecast 93	2.88	-18.87%	7.29	-9.55%
Forecast 94	4.09	42.01%	7.76	6.45%
Forecast 95	4.89	19.56%	8.06	3.87%

ECONOMIC OVERVIEW

Inflation

Inflation indices measure the rate of price escalation and/or decrease for goods and services. The most commonly used statistic is the Consumer Price Index (CPI) which is based on the prices of food, clothing, shelter, fuel, drugs, transportation fares, doctor and dentist fees, and other items.

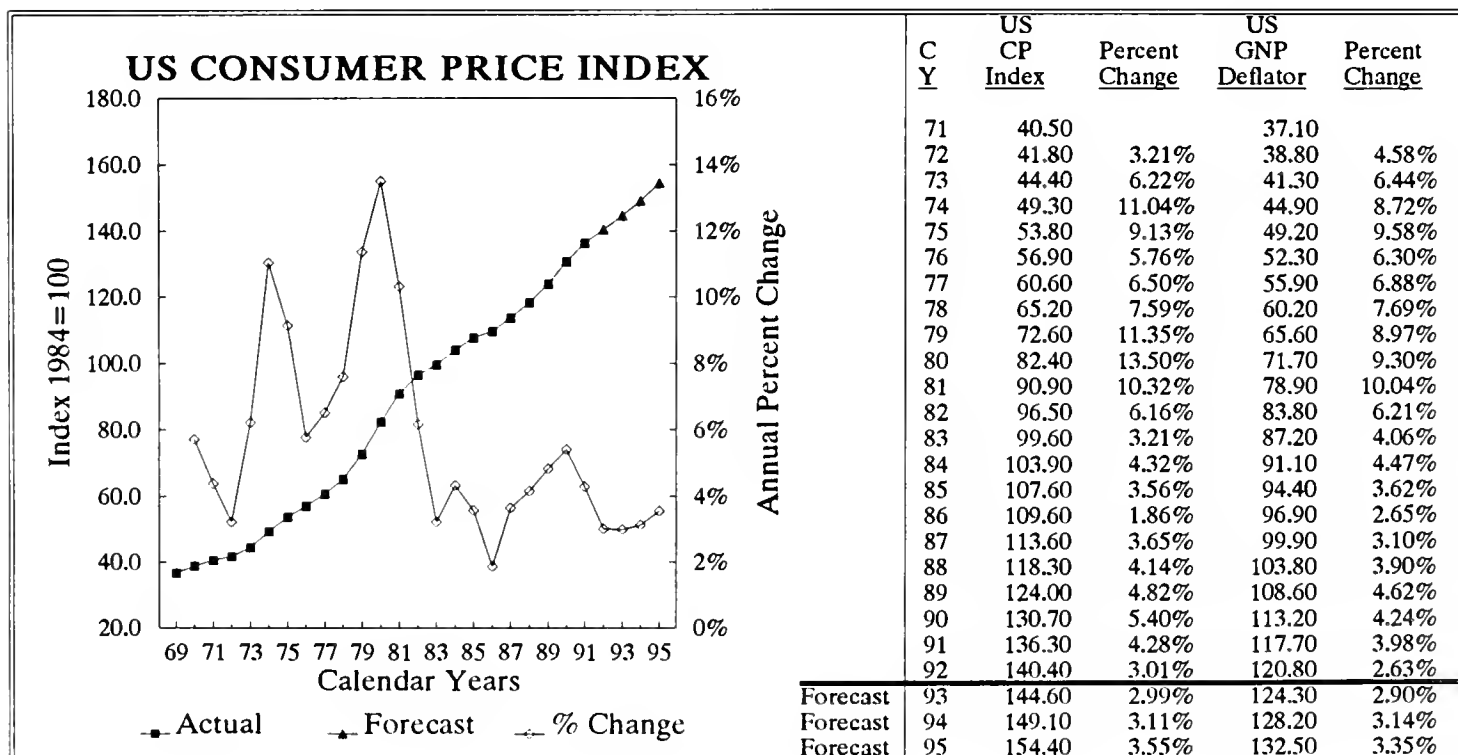
During high inflationary periods, consumption of goods and services may decline. This not only decreases employment levels but may discourage business activity because of higher operating costs. Low inflation may result in higher consumption, increased employment, and greater business opportunities.

Inflation rates have an impact on most revenue sources. The sources that are especially affected

include personal income taxes, public institution reimbursements, and corporation taxes.

An annual inflation rate of 3.0 percent occurred during calendar year 1992. This growth rate is forecast for calendar 1993 and then to increase slightly during calendar years 1994 and 1995. This outlook anticipates: 1) modest wage compensation growth because of a need to make U.S. exports competitive; 2) oil prices and related energy prices increasing modestly; and 3) food prices increasing slightly throughout the forecast period.

The table below lists two measures of inflation as published by Wharton Econometrics. These national averages are provided because indices for Montana are not available.



ECONOMIC ASSUMPTIONS

Major Economic Assumptions

Year	Assumption	Units	CY/FY 1992	CY/FY 1993	CY/FY 1994	CY/FY 1995
Population & Employment Indicators						
HJR3	MT Population July 1	Millions	0.811	0.817	0.823	0.829
Com	MT Population >= 16 July 1	Millions	0.602	0.604	0.606	0.608
Com	MT Population 18-24 July 1	Millions	0.067	0.064	0.061	0.059
HJR3 CY	MT Non-Farm Employment	Thousands	317.100	322.400	327.500	332.300
Montana Income Indicators						
Com CY	MT Total Personal Income	Million \$'s	13,122.043	13,589.206	14,095.474	14,669.801
HJR3 CY	MT Net Farm Income	Million \$'s	492.529	496.568	500.488	503.730
Com CY	MT Disposable Personal Income	Million \$'s	11,505.329	11,914.852	12,358.651	12,862.108
Com CY	MT Non-Farm Wage & Salary Income	Million \$'s	6,452.000	6,770.729	7,130.932	7,504.592
Individual Income Tax Indicators						
Com CY	MT Non-Farm Wage & Salary Growth	% Change	6.68%	4.94%	5.32%	5.24%
HJR3 CY	MT Interest/Dividend Growth	% Change	-2.55%	2.08%	6.05%	7.37%
HJR3 CY	MT Net Business Income	% Change	7.80%	7.60%	8.60%	8.70%
HJR3 CY	MT Capital Gains/Losses Income	% Change	1.68%	1.66%	1.65%	1.63%
HJR3 CY	MT Rent/Roy./Partnership Income	% Change	7.80%	7.60%	8.60%	8.70%
HJR3 CY	MT All Other Income	% Change	6.89%	5.10%	5.47%	5.38%
HJR3 FY	Individual Income Tax Audits	Million \$'s	14.077	16.397	12.000	12.000
Corporate Income Tax Indicators						
HJR3 CY	US Corporate Profits Before Taxes	Billion \$'s	375.800	415.300	431.500	428.300
Com CY	MT Corporate Taxable Income	Million \$'s	784.883	875.712	916.452	912.254
HJR3 FY	Corporate Income Tax Audits	Million \$'s	15.317	23.338	7.800	7.800
Inflation & Interest Rate Indicators						
HJR3 CY	Consumer Price Index	% Change	3.01%	2.99%	3.11%	3.55%
HJR3 CY	Short Term Interest Rate	Percent	3.55%	2.88%	4.09%	4.89%
HJR3 CY	Long Term Interest Rate	Percent	8.06%	7.29%	7.76%	8.06%
Com FY	TCA Blended Interest Rate	Percent	6.17%	4.44%	4.40%	4.65%
HJR3 FY	TRANS Interest Spread	Percent	0.80%	0.00%	0.00%	0.00%
HJR3 FY	Treasury Cash Average Balance	Million \$'s	267.461	284.992	239.131	233.431
HJR3 FY	TRANS Issue Size	Million \$'s	85.000	135.600	60.000	60.000
HJR3 FY	Permanent Trust Gains/Losses	Million \$'s	3.626	6.018	1.843	1.843
HJR3 FY	Common School Trust Gains/Losses	Million \$'s	2.339	4.198	1.791	1.885
HJR3 FY	Resource Indemnity Trust Gains/Losses	Million \$'s	0.845	0.845	0.845	0.845
HJR3 FY	Parks Trust Gains/Losses	Million \$'s	0.000	0.102	0.102	0.102
HJR3 FY	Arts Trust Gains/Losses	Million \$'s	0.119	0.119	0.119	0.119

ECONOMIC ASSUMPTIONS

Major Economic Assumptions

Year	Assumption	Units	CY/FY 1992	CY/FY 1993	CY/FY 1994	CY/FY 1995
Natural Resource Tax Indicators						
HJR3 CY	Total Oil Production	Million Barrels	18.867	18.278	17.756	17.241
Com CY	Severance Tax Oil Production	Million Barrels	17.752	17.314	16.822	16.320
HJR3 CY	Montana Oil Price	\$ / Barrel	17.283	17.700	18.199	18.500
HJR3 CY	Total Coal Production	Million Tons	36.549	34.993	34.447	34.347
HJR3 CY	Montana Coal Price	CSP \$'s / Ton	7.382	7.554	7.610	7.780
Com FY	Coal Tax Credits	Million \$'s	3.331	0.627	0.000	0.000
HJR3 CY	Total Natural Gas Production	Million MCF's	47.360	47.940	48.756	49.388
HJR3 CY	Montana Natural Gas Price	\$ / MCF	1.512	1.663	1.862	2.079
HJR3 CY	Total Gas Liquids Production	Million Gallons	9.460	9.576	9.739	9.865
HJR3 CY	Montana Gas Liquids Price	\$ / Gallon	0.175	0.193	0.216	0.241
HJR3 CY	Copper Production	Million lbs	130.590	126.389	136.789	137.744
HJR3 CY	Silver Production	Million ozs	5.828	5.793	5.708	5.748
HJR3 CY	Gold Production	Million ozs	0.402	0.415	0.421	0.424
HJR3 CY	Lead Production	Million lbs	9.620	9.620	9.620	9.687
HJR3 CY	Zinc Production	Million lbs	23.140	23.140	23.140	23.301
HJR3 CY	Molybdenum Production	Million lbs	9.600	7.860	10.280	10.352
HJR3 CY	Palladium Production	Million ozs	0.208	0.206	0.206	0.207
HJR3 CY	Platinum Production	Million ozs	0.062	0.061	0.061	0.061
HJR3 CY	Nickel Production	Million lbs	0.313	0.310	0.310	0.312
HJR3 CY	Rhodium Production	Million ozs	0.002	0.002	0.002	0.002
HJR3 CY	Copper Price	\$ / lbs	0.850	0.850	0.850	0.850
HJR3 CY	Silver Price	\$ / ozs	3.800	3.800	3.800	3.800
HJR3 CY	Gold Price	\$ / ozs	340.000	340.000	340.000	340.000
HJR3 CY	Lead Price	\$ / lbs	0.250	0.250	0.250	0.250
HJR3 CY	Zinc Price	\$ / lbs	0.500	0.500	0.500	0.500
HJR3 CY	Molybdenum Price	\$ / lbs	2.380	2.380	2.380	2.380
HJR3 CY	Palladium Price	\$ / ozs	100.000	100.000	100.000	100.000
HJR3 CY	Platinum Price	\$ / ozs	350.000	350.000	350.000	350.000
HJR3 CY	Nickel Price	\$ / lbs	4.270	4.270	4.270	4.270
HJR3 CY	Rhodium Price	\$ / ozs	3,245.000	3,245.000	3,245.000	3,245.000
HJR3 FY	Total Federal Forest Receipts	Million \$'s	36.038	46.833	40.610	47.147
Property Value Indicators						
Com FY	Total Statewide Taxable Valuation	Million \$'s	1,559.407	1,612.780	1,637.303	1,681.548
Com FY	Net/Gross Proceeds Taxable Valuation	Million \$'s	20.549	19.248	19.492	19.310
HJR3 FY	All Other Taxable Valuation	Million \$'s	1,538.858	1,593.532	1,617.811	1,662.239
HJR3 FY	Statewide Vehicle Value	Million \$'s	2,139.656	2,224.442	2,319.864	2,426.280

ECONOMIC ASSUMPTIONS

Major Economic Assumptions

Year	Assumption	Units	CY/FY 1992	CY/FY 1993	CY/FY 1994	CY/FY 1995
Consumption Tax Indicators						
HJR3 FY	Liquor Unit Sales	Million \$'s	4.952	4.987	5.022	5.058
HJR3 FY	Wine Unit Sales	Million \$'s	0.053	0.041	0.031	0.024
HJR3 FY	Liquor Cost Per Unit	\$'s / Unit	9.602	9.975	10.140	10.464
HJR3 FY	Wine Cost Per Unit	\$'s / Unit	5.798	6.177	6.286	6.506
HJR3 FY	Liquor Division Budget	% Change	6.54%	4.78%	3.00%	3.00%
HJR3 FY	Beer Gallons	Millions	0.741	0.771	0.790	0.811
HJR3 FY	Wine Liters	Millions	5.075	5.013	4.987	5.023
HJR3 FY	Cigarette Packs	Millions	69.182	68.462	70.679	70.830
HJR3 FY	Tobacco Value	Million \$'s	9.237	9.721	10.738	11.920
HJR3 FY	Gallons of Gasoline	Millions	446.404	446.286	446.229	446.588
HJR3 FY	Gallons of Diesel	Millions	128.272	130.631	133.032	135.478
HJR3 FY	Video Machine Net Income	Million \$'s	160.343	175.388	193.279	208.080
HJR3 FY	Total Lottery Sales	Million \$'s	27.922	29.114	30.417	31.912
HJR3 FY	Insurance Premiums Growth	% Change	2.38%	7.50%	5.52%	5.52%
HJR3 FY	Insurance Premiums Tax Credit	Million \$'s	2.757	3.774	4.530	3.024
HJR3 FY	Police & Firemen Retirement	Million \$'s	6.516	7.073	7.374	7.691
HJR3 CY	Telephone Taxable Income	Million \$'s	260.803	263.932	269.739	275.673
HJR3 CY	Kilowatt Hours Produced	Millions	21,185.258	21,394.332	21,589.242	21,571.699
Other Indicators						
HJR3 FY	Medicaid Reimbursements	Million \$'s	10.366	11.845	10.818	11.360

GENERAL FUND REVENUES BY COMPONENT

General Fund Revenue Estimates

The economic assumptions shown on the preceding pages were adopted by the 53rd Legislature and are contained in House Joint Resolution 3. These assumptions were used in generating the general fund and school equalization account (SEA) revenue estimates detailed in the following section.

General fund revenue includes receipts from levies upon personal income, corporate income, mineral extraction, alcoholic beverage consumption, insurance premiums, and numerous other fees, fines, and taxes. Since most sources are influenced by economic conditions, forecasts formulated for these revenues utilize the economic forecasts detailed in the preceding pages.

Following are descriptions summarizing the forecast methodology used for each of the larger general fund revenue sources. Also shown are historical collections for each major source and projected revenue for the 1995 biennium.

In the table and graph on the next page, 1993 biennium collections are higher for some tax sources than preceding biennia and projected collections for the 1995 biennium. The increased collections during fiscal 1992 and fiscal 1993 are due to several factors:

1) the executive decision to change from a "modified" to "full" accrual accounting method in fiscal 1992, resulting in the inclusion of \$32.0 million more revenue in the general fund and \$9.7 million more revenue in the SEA.

2) during the July 1992 special session, the legislature imposed a 7 percent surtax on 26 taxes for a period of one year. The revenue collected from these surtaxes was deposited in the general fund, with the exception of revenue generated from the surtax on motor fuels and gross vehicle weight taxes, which was deposited in the highways account. In addition, the legislature imposed a 2.3 percent surtax on personal income and corporation taxes for calendar 1992. Surtax revenue from the corporation tax will be deposited in the general fund, while surtax revenue from the personal income tax will be deposited in the general fund and school equalization account.

3) during the 1991 regular session and both 1992 special sessions, the legislature enacted measures that provided "one-time" personal income tax collections and temporarily diverted revenue to the general fund during the 1993 biennium. These measures are discussed in the following summaries by revenue source.

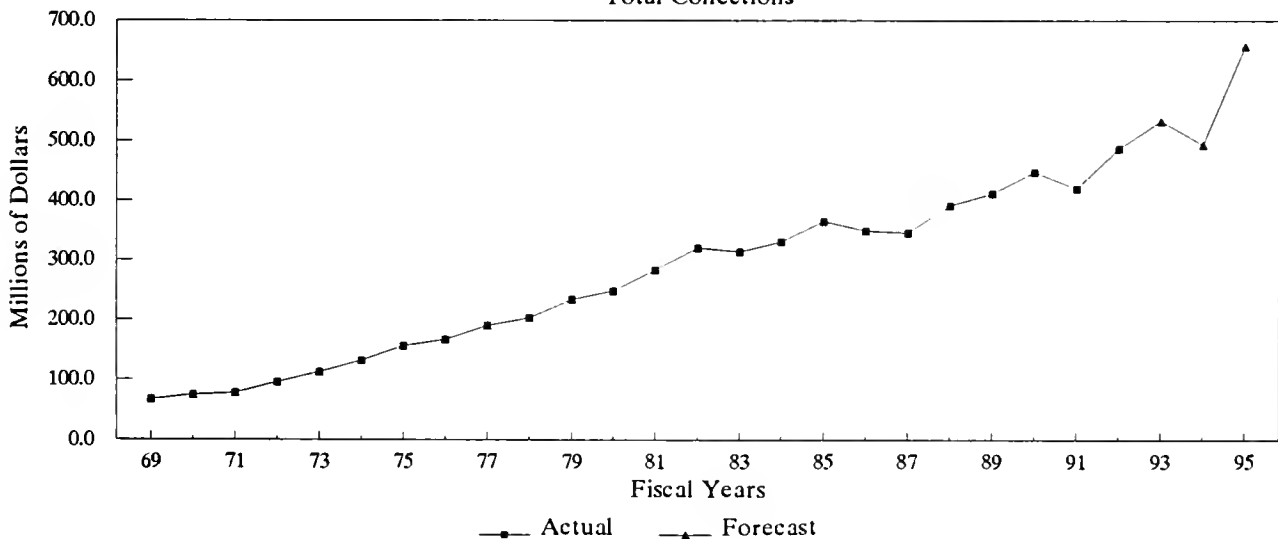
GENERAL FUND REVENUES BY COMPONENT

Figures In Millions

Source of Revenue	Actual Fiscal 1992	Estimated Fiscal 1993	Estimated Fiscal 1994	Estimated Fiscal 1995	Estimated FY 92-93	Estimated FY 94-95
Individual Income Tax	\$200.684	\$224.576	\$216.745	\$348.005	\$425.260	\$564.750
Corporation License Tax	32.052	45.078	40.382	57.000	77.130	97.382
Coal Severance Tax	9.609	13.653	5.994	5.990	23.262	11.984
Oil Severance Tax	20.427	16.815	15.160	15.328	37.242	30.488
Interest on Investments	16.494	13.097	10.522	10.855	29.591	21.377
Long-Range Bond Excess	42.734	48.967	48.371	50.119	91.701	98.490
Coal Trust Interest Income	40.010	42.991	39.146	47.254	83.001	86.400
Insurance Premiums Tax	20.387	23.284	21.699	24.712	43.671	46.411
Public Institutions Reimb.	16.329	15.893	13.561	14.160	32.222	27.721
Liquor Profits	5.363	4.155	4.008	4.440	9.518	8.448
Liquor Excise Tax	6.122	6.700	6.467	6.721	12.822	13.188
Inheritance Tax	11.338	10.484	10.405	10.679	21.822	21.084
Metal Mines Tax	3.966	4.172	3.526	3.692	8.138	7.218
Electrical Energy Tax	4.938	4.255	3.994	4.021	9.193	8.015
Drivers' License Tax	1.776	1.722	1.800	1.805	3.498	3.605
Telephone License Tax	4.984	4.222	4.003	4.091	9.206	8.094
Beer License Tax	1.453	1.621	1.422	1.459	3.074	2.881
Natural Gas Severance Tax	1.396	1.283	1.249	1.264	2.679	2.513
Freight Line Tax	1.272	3.092	3.199	3.199	4.364	6.398
Wine Tax	0.853	0.897	0.798	0.804	1.750	1.602
Video Gaming Income Tax	9.875	10.611	9.664	10.404	20.486	20.068
Motor Vehicle Account	10.152	9.653	9.911	10.175	19.805	20.086
Vehicle Fees	3.227	3.114	3.248	3.397	6.341	6.645
Public Contractor's Tax	1.270	1.230	1.242	1.252	2.500	2.494
Other Revenue Sources	20.324	21.381	16.560	16.854	41.705	33.414
Grand Total	\$487.036	\$532.946	\$493.076	\$657.680	\$1,019.982	\$1,150.756

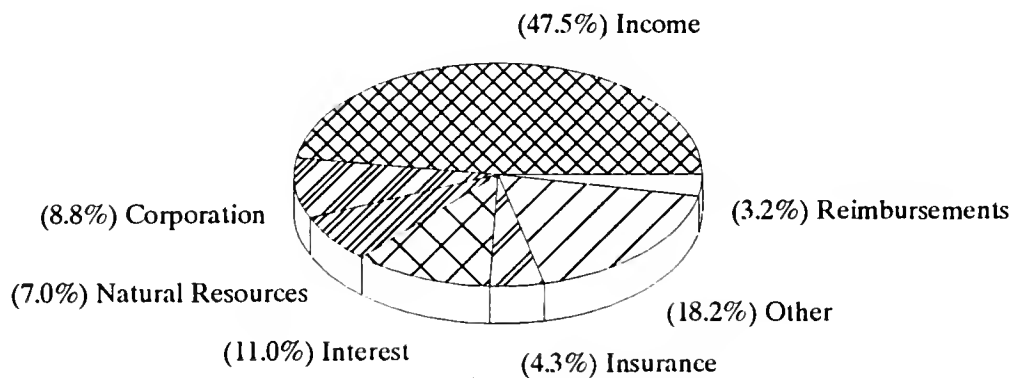
GENERAL FUND REVENUE

Total Collections

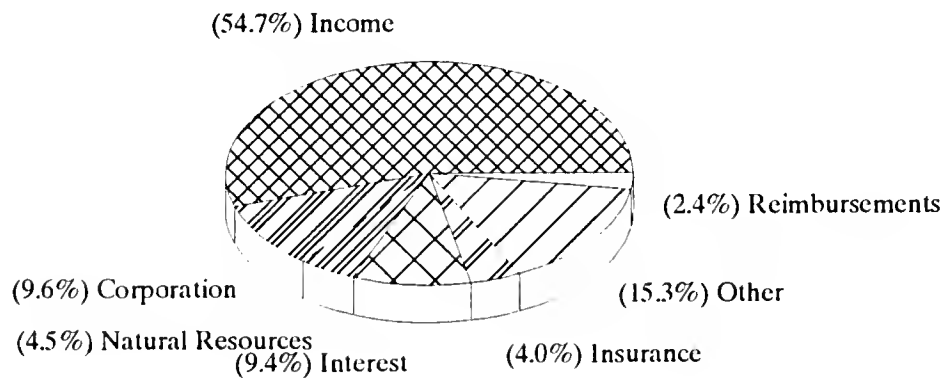


GENERAL FUND REVENUES BY COMPONENT

General Fund Revenue Analysis *Contribution By Major Component FY 92-93*



General Fund Revenue Analysis *Contribution By Major Component FY 94-95*



GENERAL FUND REVENUES BY COMPONENT

Individual Income Tax

Individual or personal income tax is the largest single source of revenue to the general fund, comprising over 50 percent of total collections.

This tax was first enacted in 1933 and has been amended many times since then. The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Prior to July 1993, the marginal tax rates ranged from 2 percent to 11 percent, with the size of the tax brackets and the values of the personal exemption and standard deduction fully indexed for inflation. Once tax liability was determined, the amount of tax due was computed by subtracting allowable credits. The 1993 Legislature enacted several measures affecting income tax rates, collection, and distribution.

The income tax forecasts for the 1995 biennium are based on moderate growth in wage and salary income and employment. With national economic conditions remaining weak, Montana's economic growth is also expected to remain slow, primarily due to recessionary pressures and the continuing shift in employment from basic industries to the service sectors. Additional factors that affect receipts include credits, exemptions, indexation and audit efforts by the Department of Revenue. Projections for fiscal years 1993 through 1995 are based on inflation rates of 3.0, 3.1, and 3.6 percent, respectively, and the continuation of all statutory credits and exemptions. The projections also include annual audit collections of \$12.0 million for fiscal 1994 and 1995.

The revenue estimates for the 1993 biennium included a substantial amount from personal income tax audits, as Table 1 shows. During the January 1992 special session, the legislature added 4.0 FTE to the income tax staff and increased the audit estimate by \$1.0 million for fiscal 1993.

In adopting revenue estimates for the 1995 biennium, the legislature used the Department of Revenue estimates of audit activity in the 1995 biennium.

Table 1
Personal Income Tax Audit Collections
Fiscal Year 1991-95

<u>FY</u>	<u>Millions</u>
1991 Actual	\$11.3
1992 Actual	14.1
1993 Estimated	16.4
1994 Estimated	12.0
1995 Estimated	12.0

During the July 1992 special session, the legislature imposed a personal income tax surtax of 2.3 percent for calendar 1992 and 4.7 percent for calendar 1993. However, the 53rd Legislature enacted House Bill 671 which revised the income tax system and repealed the 4.7 percent surtax for calendar 1993. As Table 2 shows, a personal income tax surtax has been in effect for 20 of the last 27 years at varying tax rates.

Table 2
Personal Income Tax Surtax

<u>Tax Year</u>	<u>Rate (%)</u>
1967-1968	5.0
1969-1970	10.0
1971-1972	40.0
1973-1980	10.0
1987-1988	10.0
1990	5.0
1992	2.3
1993 and Beyond	0.0

GENERAL FUND REVENUES BY COMPONENT

Personal income tax collections have historically been distributed among three accounts (the general fund, school equalization account, and debt service). The 1993 Legislature eliminated the distribution of income tax revenues to the school equalization account (SEA) beginning in fiscal 1995. Table 3 shows the current and historical allocations of these tax collections.

funded through a statutory appropriation from the general fund.

The legislature enacted several measures during the 1991 regular and January 1992 special session that accelerated due dates for certain income tax payments resulting in additional "one-time" tax collections during the 1993 biennium:

House Bill 959 required that taxpayers who apply for an extension of time for filing an individual income tax return must pay 95 percent of the current year tax liability or 100 percent of the previous year tax liability at the time of filing. The act is effective for tax years after December 31, 1990, and resulted in approximately \$11.0 million of "one-time" revenue in fiscal 1992.

House Bill 14 required that any taxpayer with annual liability (less credits and withholding payments) greater than \$500 will be required to file quarterly estimated tax payments beginning in tax year 1993. (If more than two-thirds of a taxpayer's income is net farm income, he is not required to file quarterly returns.) This bill is expected to accelerate collections by \$32.5 million in fiscal 1993.

Additional "one-time" collections of \$18.7 million occurred in the general fund in fiscal 1992, when the executive changed from a "modified" to "full" accrual method of accounting.

Personal income tax collections in fiscal 1991 and 1992 fell below the levels anticipated during the 1991 regular session. While collections from withholding on wage and salary income were slightly above legislative estimates, payment of estimated taxes on nonwage income (capital gains, interest and dividends, rents and royalties, and farm income) were significantly below anticipated levels. In recent years, nonwage income comprises a growing segment of Montana's total income, growing from 30.0 percent in calendar 1986 to 42.1 percent in calendar 1991. Since this income source is more volatile than wage income, it has made estimating personal income tax collections more difficult.

The 1993 Legislature enacted several measures affecting personal income taxes.

Table 3
Distribution of Individual Income Tax Collections

<u>Fiscal Year</u>	<u>General Fund</u>	<u>School Equalization</u>	<u>Debt Service</u>
1975-86	64.0%	25.0%	11.0%
1987-89	58.2	31.8	10.0
1990	57.0	33.2	9.8
1991	50.0	41.3	8.7
1992 - 1993	62.8	28.5	8.7
1994	59.5	31.8	8.7
1995 and Beyond	91.3	0.0	8.7

During the 1991 regular session, the legislature enacted Senate Bill 226, which was anticipated to increase personal income tax collections by \$27.9 million during the 1993 biennium. This bill made state, local, and teachers' retirement benefits taxable. It also allowed a \$3,600 exemption from taxable income for all retirement income for tax years after December 31, 1990. The deduction is phased out for taxpayers with federal adjusted gross income which exceeds \$30,000. Previous law allowed state retirees an exemption equal to all retirement income. Administrative rules adopted by the Department of Revenue in tax year 1989 in response to a federal court ruling allowed federal retirees to exempt all their retirement income. Senate Bill 226 also provided for a 2.5 percent annual increase in benefits for public employees and teachers retirement system recipients living in Montana. These increased benefits are

GENERAL FUND REVENUES BY COMPONENT

House Bill 219 beginning in the 1993 tax year, provides an income tax credit for the labor and equipment costs associated with the conversion of a motor vehicle to alternative fuels. The amount of the credit is fifty percent of the costs incurred up to a maximum of \$500 for the conversion of a motor vehicle with a gross weight of 10,000 pounds or less and a maximum of \$1,000 for the conversion of a vehicle weighing 10,000 pounds or more. The estimated reduction in income tax revenue resulting from this credit will be \$0.407 million during the 1995 biennium.

House Bill 671 made major changes in the income tax system. Effective in tax year 1993, House Bill 671:

1) reduces the number of tax rates and income brackets from ten to one. The new rate is 6.7 percent of taxable income. This tax rate may be increased up to 7.4 percent in response to changes in federal law;

2) eliminates itemized deductions and raises the standard deduction for all taxpayers. The new standard deduction amounts are 40 percent of Montana adjusted gross income not to exceed \$5,000 for single filers and married separate filers, \$7,500 for heads of household, and \$10,000 for married taxpayers filing jointly. The standard deduction is reduced by 6.25 percent for each \$5,000 that federal adjusted gross income exceeds \$100,000;

3) eliminates refunds of federal taxes paid as taxable income for calendar year 1993, only;

4) raises the personal exemption amount to \$2,710 for each exemption. The bill phases out personal exemptions for high income taxpayers, with the personal exemption being reduced by 6.25 percent for each \$5,000 that federal adjusted gross income exceeds \$100,000;

5) creates an exemption for families with two income earners, allowing on joint returns a reduction in adjusted gross income of an amount equal to 10 percent of earned income of the spouse earning the least amount of income or \$3,000, whichever is less;

6) reduces the inflation adjustment for the standard deduction and personal exemptions to 50 percent of the change in the consumer price index, beginning in calendar year 1994;

7) requires nonresidents to prorate exemptions and the standard deduction by the ratio of Montana adjusted gross income to federal adjusted gross income;

8) requires that the filing status for state income tax purposes be identical to the filing status for federal income tax purposes;

9) establishes new income thresholds for filing an income tax return, requiring a return to be filed if gross income exceeds the sum of the standard deduction and personal exemptions;

10) repeals the income tax surtax for calendar 1993.

11) establishes a one-time income tax credit for the gain from the sale of a business, trade or profession, with the credit amount equal to the capital gain included in Montana adjusted gross income times the individual's highest federal tax rate in the year the gain from the sale is reported times the state tax rate. If the gain exceeds \$1 million, the credit is reduced at a rate of 1 percent for each \$20,000 of gain in excess of \$1 million. The credit may not be carried forward or backward.

House Bill 671 is expected to increase income tax collections by \$66.3 million in the 1995 biennium.

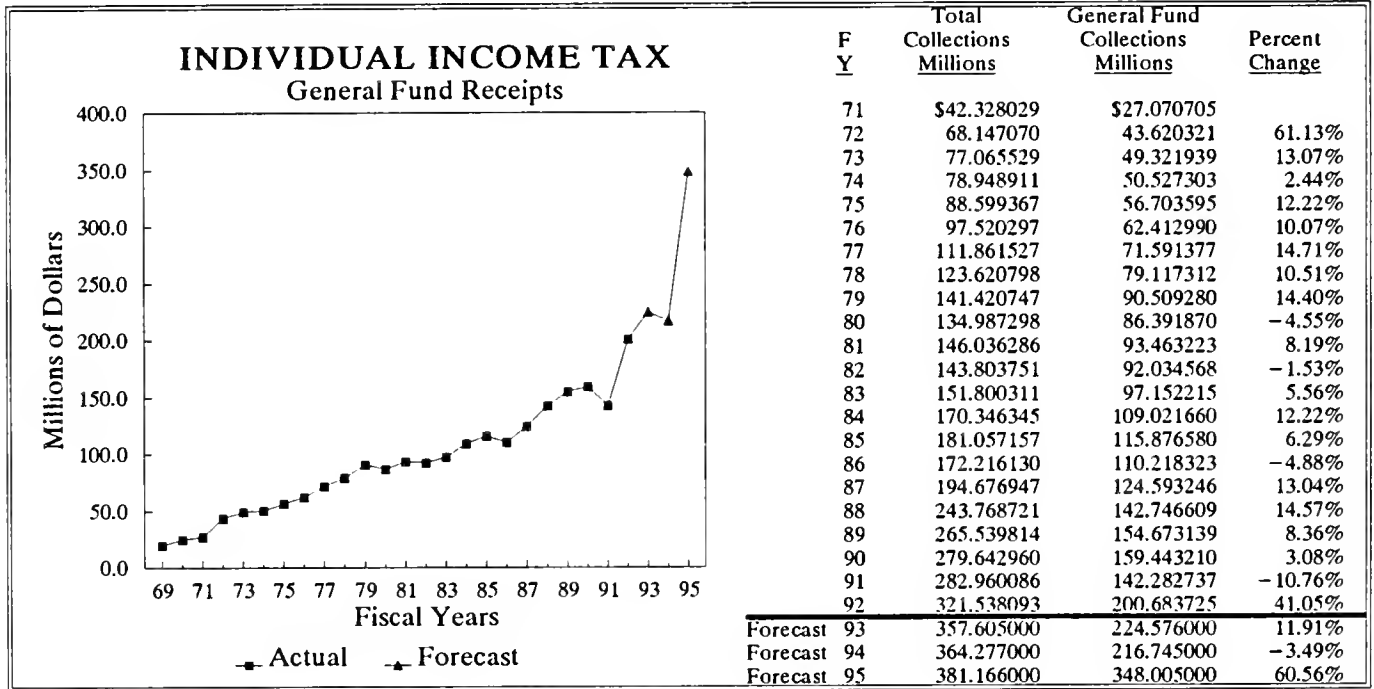
Senate Bill 269 requires the Department of Revenue to allow individuals who receive federal annuity payments to withhold voluntarily for income tax purposes. The impact in the 1995 biennium is expected to be minimal.

Senate Bill 378 eliminates the distribution of income tax revenues to the SEA effective in fiscal 1995. Current law requires that 31.8 percent of income tax revenue be deposited in the SEA.

GENERAL FUND REVENUES BY COMPONENT

Senate Bill 428 requires income tax withholding on all payments of lottery winnings in excess of \$5,000 from tickets purchased in Montana. The bill is expected to

result in a one-time increase in income tax collections of \$0.195 million in fiscal 1994.



GENERAL FUND REVENUES BY COMPONENT

Corporation License Tax

The corporation license tax is levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Prior to the 1993 Legislature, the tax rate was 6.75 percent, except for corporations making a "water's edge" election (section 15-31-322, MCA), which pay a 7 percent tax on their net income.

Eighty percent of the corporation taxes collected from financial institutions (excluding collections from the surtax imposed for tax years 1992 and 1993) is distributed to local governments in the county in which the financial institution is located. The remaining 20 percent is allocated as shown in Table 4. The 1993 Legislature eliminated the distribution of corporation tax revenues to the school equalization account beginning in fiscal 1995.

Table 4
Distribution of Corporation License Tax Collections*

<u>Fiscal Year</u>	<u>General Fund</u>	<u>School Equalization</u>	<u>Debt Service</u>
1975-1990	64.0%	25.0%	11.0%
1991 - 1994	61.0	28.5	10.5
1995 and Beyond	89.5	0.0	10.5
*After distribution of financial institutions' corporation tax to counties.			

Surtaxes on corporate income tax liability were imposed in two recent tax years. House Bill 671 repealed the surtax for tax year 1993, which was imposed during the July 1992 special session.

Table 5
Corporate Tax Surtax

<u>Tax Year</u>	<u>Rate (%)</u>
1990	5.0
1992	2.3
1993 and Beyond	0.0

House Bill 56, enacted during the June 1989 special session, required corporations with annual liabilities in excess of \$5,000 to make quarterly estimated tax payments beginning in tax year 1990. Previously, tax payments were made annually. This resulted in approximately \$17 million of accelerated collections in fiscal 1990 and 1991.

The forecasts for fiscal 1993 through 1995 are based on moderate economic growth. This assumption is premised on inflation in the range of 3.0 to 3.6 percent, short-term interest rates of about 2.9 to 4.9 percent, and oil prices at about \$17.70 to \$18.50 per barrel.

Additional factors that affect receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts have been adjusted for allowable credits. The projections for audit collections are about \$7.8 million each year for fiscal 1994 through fiscal 1995.

GENERAL FUND REVENUES BY COMPONENT

The revenue estimates for the 1993 biennium included a substantial amount from corporation tax audits, as Table 6 shows. During the January 1992 special session, the Executive Budget requested and the legislature approved funding for increased travel and personal services to accelerate audit collections. In response, the legislative revenue estimates were raised \$3.1 million in fiscal 1992 and \$5.1 million in fiscal 1993, for a total of \$10.2 million in fiscal 1992 and \$13.3 million in fiscal 1993. However, during the July 1992 special session, the Department of Revenue testified that its fiscal 1992 audit collections had exceeded the estimate but it would not be able to reach the anticipated level for fiscal 1993. Based on this testimony, anticipated audit collections were reduced by \$5.1 million. At the beginning of the 1993 Legislature, the Department of Revenue informed the legislature of an audit settlement of \$15.2 million. This amount was included in the fiscal 1993 estimate. In adopting revenue estimates for the 1995 biennium, the legislature used the Department of Revenue's estimates of audit activity for the 1995 biennium.

Table 6
Corporation Tax Audit Collections
Fiscal Year 1991-95

<u>FY</u>	<u>Million</u>
1991 Actual	\$8.1
1992 Actual	15.3
1993 Estimated	23.3
1994 Estimated	7.8
1995 Estimated	7.8

Additional "one-time" refunds of approximately \$2.5 million occurred in fiscal 1992, when the executive changed from a "modified" to "full" accrual method of accounting. This reduced general fund receipts by \$1.5 million in fiscal 1992.

The 1993 Legislature enacted several measures affecting corporation taxes.

House Bill 219 provides a corporate income tax credit for the labor and equipment costs associated with the conversion of a motor vehicle to alternative fuels

beginning in the 1993 tax year. The amount of the credit is fifty percent of the costs incurred up to a maximum of \$500 for the conversion of a motor vehicle with a gross weight of 10,000 pounds or less and a maximum of \$1,000 for the conversion of a vehicle weighing 10,000 pounds or more. The estimated reduction in corporation income tax revenue as a result of this bill will be \$0.369 million during the 1995 biennium.

House Bill 671 revises the tax rates for the corporation income tax, beginning in the 1993 tax year. House Bill 671 increases the number of rates and brackets from one to two. For tax year 1993, the rates and brackets for regular C-corporations are: 7.08 percent of taxable income below \$500,000 and 7.57 percent of taxable incomes in excess of \$500,000. The rates and brackets for water's edge corporations are: 7.33 percent of taxable income below \$500,000 and 7.82 percent of taxable incomes in excess of \$500,000.

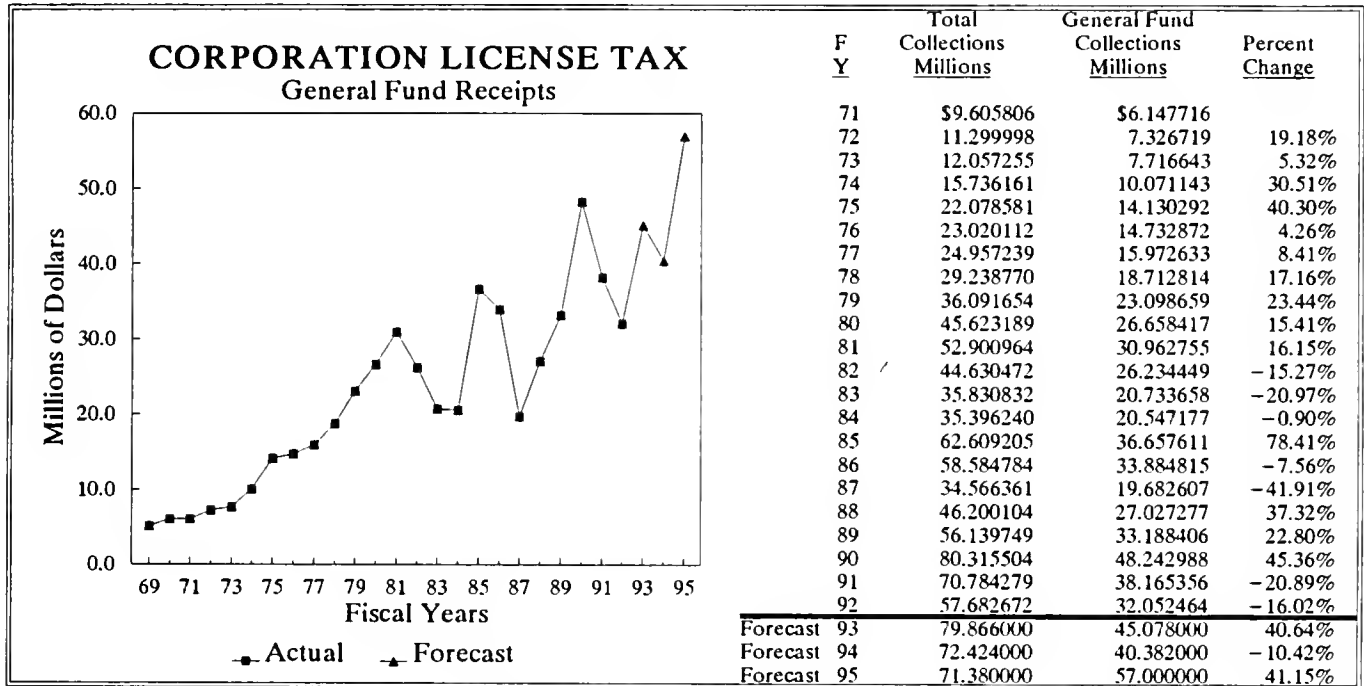
For tax year 1994 and beyond, the rates and brackets for regular C-corporations are: 6.75 percent of taxable income below \$500,000 and 7.25 percent of taxable incomes in excess of \$500,000. The rates and brackets for water's edge-corporations are: 7.00 percent of taxable income below \$500,000 and 7.50 percent of taxable incomes in excess of \$500,000.

House Bill 671 also increases the minimum tax for every corporation from \$50 to \$100 per year; increased the fee for small business corporations from \$10 to \$25 per year; and repealed the corporation income tax surtax for calendar 1993.

The bill is expected to increase corporation income tax collections by \$6.4 million in the 1995 biennium.

House Bill 680 eliminates the interest differential tax credit a corporation is allowed to take under current law for low interest loans for qualifying installations of energy saving materials or devices. HB680 applies to all loans made after July 1, 1995.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Coal Severance Tax

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax. Legislation passed by the 1987 Legislature provided for a phase-down of the tax rate to 15 percent by the 1993 biennium as shown in Table 7. The law establishes a lower tax rate for coal with a heating quality of less than 7,000 BTU.

Table 7 Coal Severance Tax Rates		
	<u><7,000 BTU</u>	<u>≥7,000 BTU</u>
FY 88	20%	30%
FY 89	17%	25%
FY 90	17%	25%
FY 91	13%	20%
FY 92 & after	13%	15%

The distribution of the tax has been amended many times since its enactment in 1975. The distribution during the 1995 biennium and thereafter is shown in Table 8.

Table 8
Coal Severance Tax Distribution Table

<u>Account Name</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Fiscal 1994-1995</u>	<u>Thereafter</u>
General Fund	15.390%	27.390%	15.390%	15.390%
Agriculture Act	0.760	0.760	0.760	0.760
Public School Equalization	11.400	11.400	11.400	11.400
State Library	0.380	0.380	0.380	0.380
Highway Reconstruction Trust	12.000	0.000	12.000	12.000
Conservation Districts	0.190	0.190	0.190	0.190
County Land Planning	0.380	0.380	0.380	0.380
Local Impact	6.650	6.650	6.650	6.650
Renewable Resources Bond	0.475	0.475	0.475	0.475
Water Development	0.475	0.475	0.475	0.475
Permanent Trust	50.000	50.000	25.000	25.000
Treasure State Endowment	0.000	0.000	25.000	25.000
Park Acquisition Trust*	0.000	0.000	0.000	1.267
Fish, Wildlife, and Parks*	1.267	1.267	1.267	0.000
Arts Trust	0.633	0.364	0.633	0.633
Montana Arts Council	0.000	0.269	0.000	0.000

*Th1 991 and 1993 Legislatures allocated a percentage of the coal severance tax to a special revenue account for use by the Department of Fish, Wildlife, and Parks for the stabilization and preservation of historic and cultural sites within the state parks system. This allocation is scheduled to end in the 1997 biennium.

GENERAL FUND REVENUES BY COMPONENT

During the July 1992 special session, the legislature imposed a "general fund stabilization tax" of 7 percent of the coal severance tax due on production that occurred in fiscal 1993. The total collections from this new tax are deposited to the general fund.

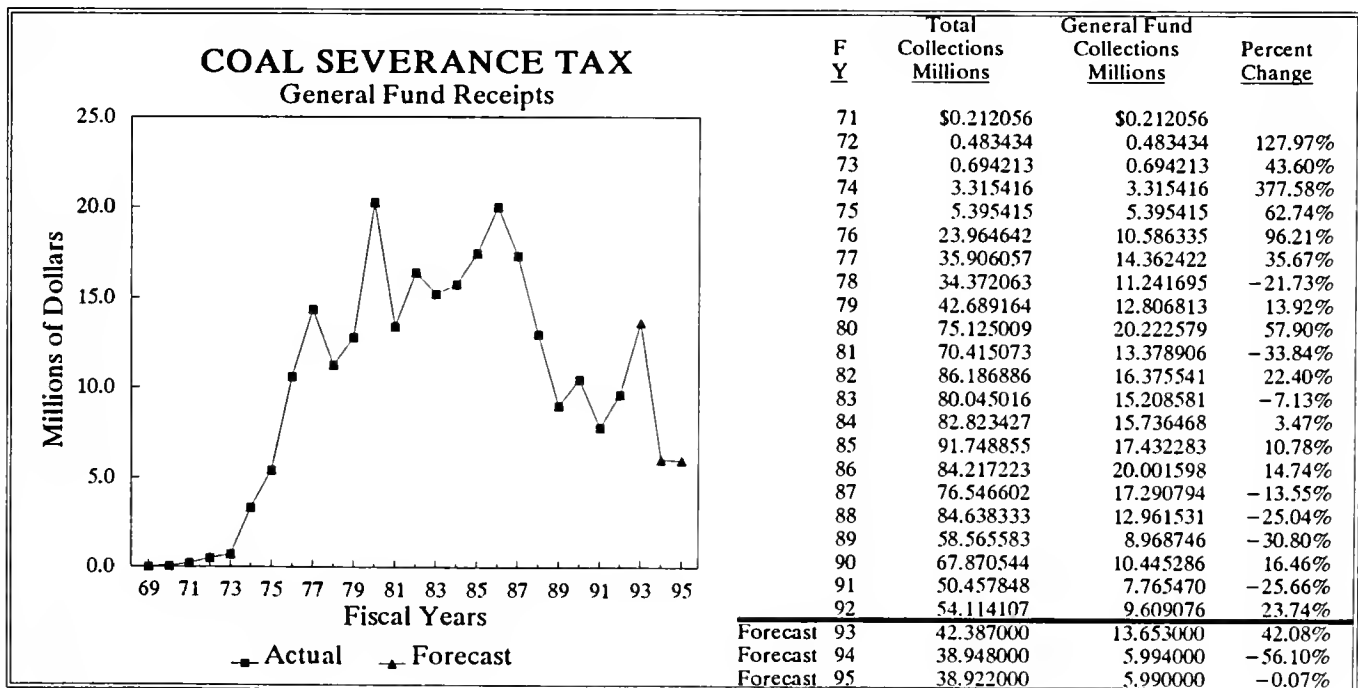
Additional "one-time" general fund collections of approximately \$2.9 million occurred in fiscal 1992, when the executive changed from a "modified" to "full" accrual method of accounting.

Coal severance tax revenues are dependent on the contract sales price per ton of coal and the number of tons produced. Since most of Montana's coal is sold to utilities under long-term contracts, prices are generally increased by inflation indices specified in the contracts. However, with lower demand, competitive prices for other fuels, and a larger portion of coal production being sold on the "spot" market, coal prices are expected to increase only slightly during the forecast period. Deductions for federal, state, and tribal royalty payments from the contract sales price have been included in the price forecasts.

Production levels are influenced by the demand for electrical power and the price of other fuels such as oil and natural gas. Based on information from the major coal producers, production is anticipated to decline between calendar 1993 and 1995.

A dispute involving the state's authority to tax coal mined on Crow Indian land has been resolved in the U.S. Supreme Court in favor of the Crow Indian Tribe. Production on these lands has been excluded from the revenue forecasts.

The 1993 Legislature enacted only one measure affecting coal severance tax allocation. Beginning July 1, 1993, House Bill 350 requires that no more than 30 percent of coal severance revenue deposited in the local impact account be expended for local impact activities associated with coal development. Unexpended balances in the local impact account at the end of each biennium are to be deposited in the school equalization account. An estimated \$3.3 million will be deposited during the 1995 biennium.



GENERAL FUND REVENUES BY COMPONENT

Oil Severance Tax

An oil severance tax is imposed on the production of petroleum and other mineral or crude oil in the state. The tax was first enacted in 1921 and has since undergone several modifications. The tax rate increased from 2.65 to 5 percent on April 1, 1981; to 6 percent on April 1, 1983; and decreased to 5 percent on April 1, 1985. During the July 1992 special session, the legislature imposed a 7 percent surtax on oil severance tax liability for production that occurred during fiscal 1993.

The 1987 Legislature enacted several tax incentives designed to increase production. Beginning April 1, 1987, new production was exempt from the tax for the first 24 months of production, as were the first five barrels per day of production from a stripper well. The remaining production from a stripper well was taxed at 3 percent. These tax incentives were in effect until the price of oil exceeded \$25 and \$30 per barrel. These price levels were reached in August 1990, and the tax incentives were revoked by executive order.

Oil severance tax revenues are dependent on well-head prices and the number of barrels of oil produced. In the 1991 biennium, world oil prices increased sharply due to the Persian Gulf conflict.

However, this price rally was short-lived. Throughout calendar 1992, prices stayed at or below \$20 per barrel. The HJR3 forecasts assume Montana oil prices will average \$17.70, \$18.20, and \$18.50 per barrel in calendar 1993 through 1995.

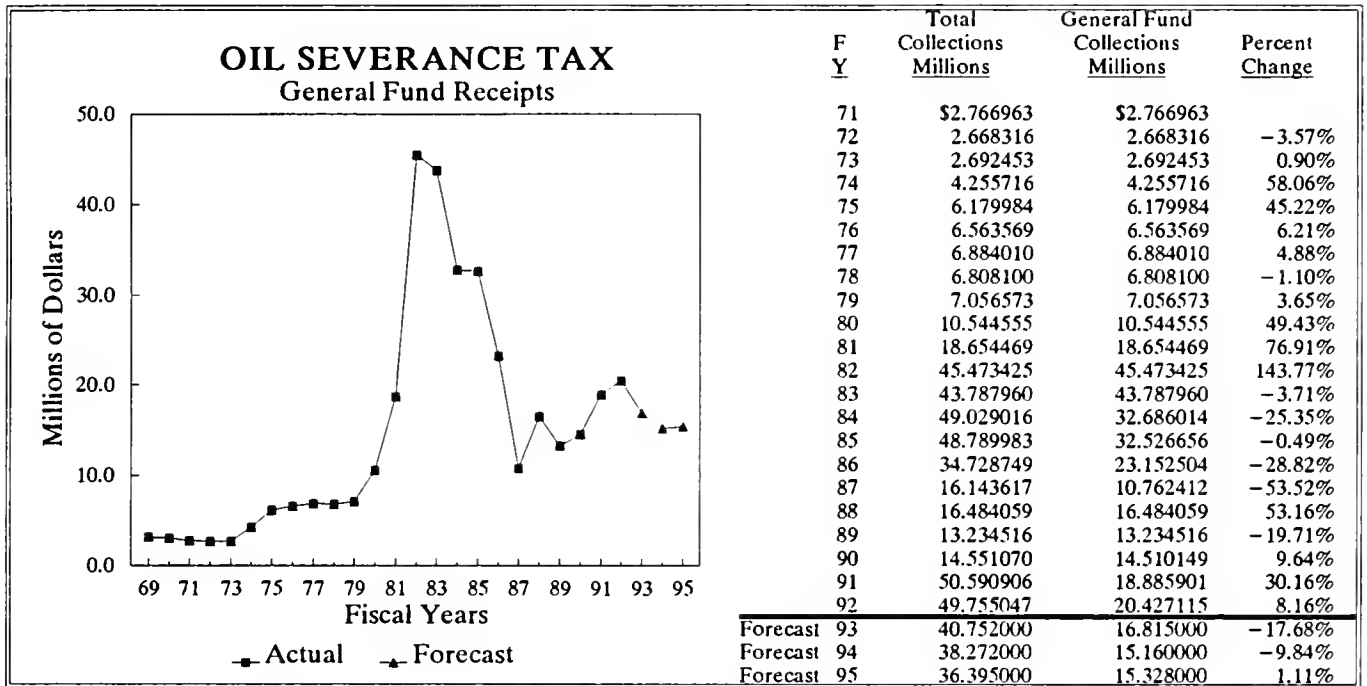
Taxable oil production has declined from 34.6 million barrels produced in calendar 1974 to 18.6 million barrels in calendar 1991. This decline is expected to continue in the 1995 biennium, although at a slower rate than during the 1989 and 1991 biennia.

From fiscal 1984 through 1987, one-third of oil severance tax receipts retained by the state were allocated to the local government block grant program. Since fiscal 1988, 100 percent of collections retained by the state from this tax source have been deposited in the general fund. The collections from the surtax in effect for fiscal 1993 production are also deposited in the general fund.

Additional "one-time" general fund collections of approximately \$4.3 million occurred in fiscal 1992, when the executive changed from a "modified" to "full" accrual method of accounting.

No changes were made by the 1993 Legislature in the oil severance tax.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Interest on Investments

The Department of Commerce's Board of Investments is responsible for investing all state funds. Sections 17-6-201 and 17-6-211, MCA, provide guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund account.

In the early 1980's, interest income was a major source of general fund revenue due to high interest rates and large investable balances. However, since 1982, with rates and balances lower, interest income has contributed a smaller proportion of total general fund revenues.

The sharp decline in revenues in fiscal 1986 was the result of lower interest rates, lower investable balances, and a bill that authorized interest earned on the highway gas tax account to accrue to the highway account. The June 1986 special session amended this legislation to allow earnings from the highway account to accrue to the general fund.

Beginning in fiscal 1991, interest earned on the school equalization account was retained in that account, rather than being deposited in the general fund.

Beginning in fiscal 1993, the interest earned on hunting and fishing license fees will be deposited in the state special revenue account and credited to the Department of Fish, Wildlife, and Parks. Under the previous law, the general fund received this interest.

Investable balances declined sharply during the 1993 biennium, due primarily to the spending down of the highway account and low balances in other state accounts.

To ease cashflow problems during the 1993 biennium, the state issued tax and revenue anticipation notes (TRANS): \$85.0 million in fiscal 1992 and \$135.6 million in fiscal 1993. Based on the recommendation of the Executive, the legislature in HJR3 adopted a TRANS issue size of \$60.0 million in fiscal 1994 and 1995.

Interest rates declined sharply in the 1993 biennium, reaching the lowest levels in two decades. Interest rates are forecast to increase slightly in the 1995 biennium. This assumption is based on steady monetary policy by the Federal Reserve, combined with additional inflationary pressures as the national economy comes out of the 1991-92 recession.

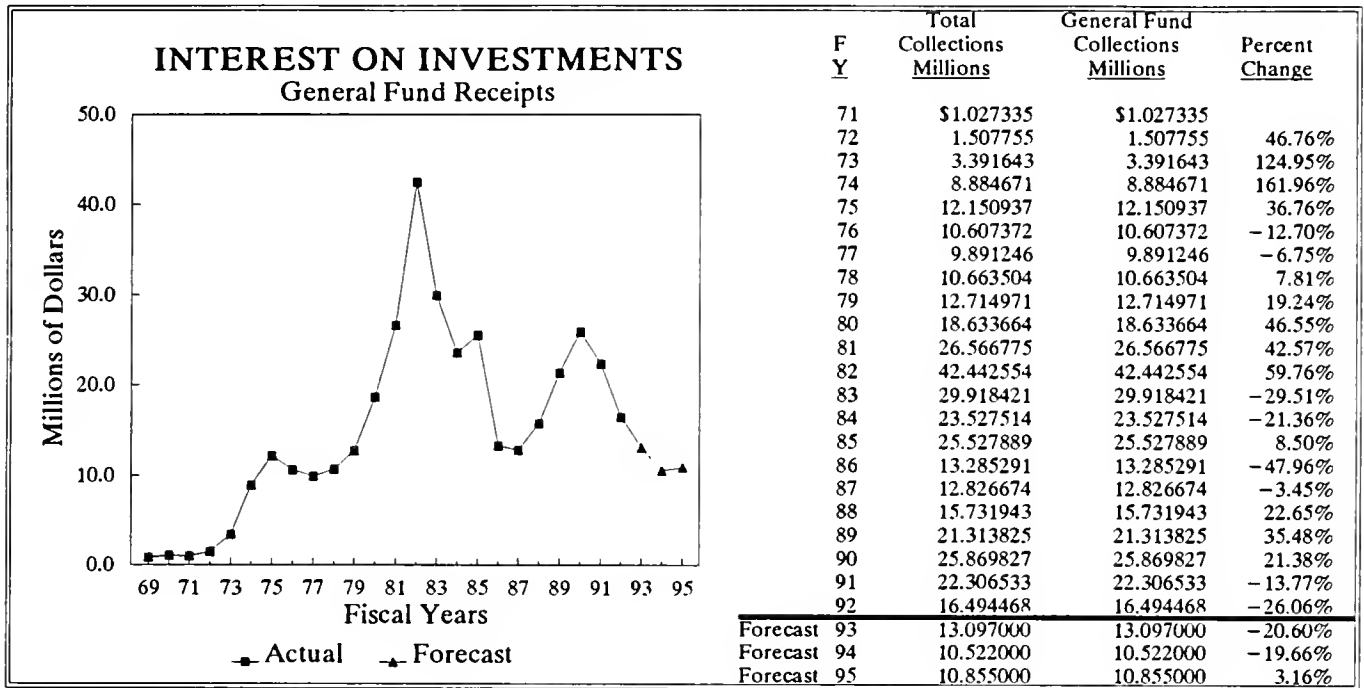
The 1993 Legislature enacted several measures affecting investments.

House Bill 93 allows the Department of Administration to reduce funds which under current law are maintained in bank clearing accounts for investment by the Board of Investments at interest rates which exceed those paid by banks. This bill also provides for a statutory appropriation to pay banks directly for bank service costs. Under current practice, the state maintains a minimum compensating balance in its clearing account in exchange for free banking services. By paying for bank service costs directly, the state may reduce funds in the clearing account to minimum amounts needed to clear checks and meet federal reserve cash requirements. The released funds may then be invested at a rate that exceeds the bank rate. House Bill 93 also requires the state to develop policies to implement the Federal Cash Management Act (FCMA) and provides for a contingent appropriation in the event that compliance with this act creates interest liabilities. General fund revenue is expected to increase by \$1.570 million during the 1995 biennium as a result of this legislation.

House Bill 223 eliminates the requirement that counties remit state money in December, allowing a January remittance. The estimated loss of interest earnings by the state will total \$0.012 million during the 1995 biennium.

Senate Bill 86 allows the state treasurer to deposit state funds in out-of-state banking institutions that provide certain needed services (transaction settlements and security safekeeping services) not provided by in-state banking institutions. The estimated net general fund savings over the 1995 biennium is \$0.558 million.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Long-Range Bond Excess

Each biennium all agencies are requested to submit proposals for capital projects to be funded from the sale of long-range building bonds. If the legislature authorizes the sale, the principal and interest charges are paid from the long-range building debt service account. Revenues deposited to this account include portions of the individual income tax and corporation license tax and cigarette and tobacco taxes. When the amount of money in the debt service account exceeds the annual principal and interest payments, the excess is transferred to the general fund.

Historically, revenues from this source were estimated by adding anticipated receipts from the earmarked tax sources and subtracting the necessary principal and interest payments. However, in fiscal 1984, the Department of Administration began transferring all debt service revenues to the general fund. A general fund statutory appropriation was established to transfer the necessary principal and interest payments back to the debt service account. These accounting transactions had zero impact on the general fund account balance. It is assumed that the Department of Administration will continue these accounting procedures throughout the forecast period.

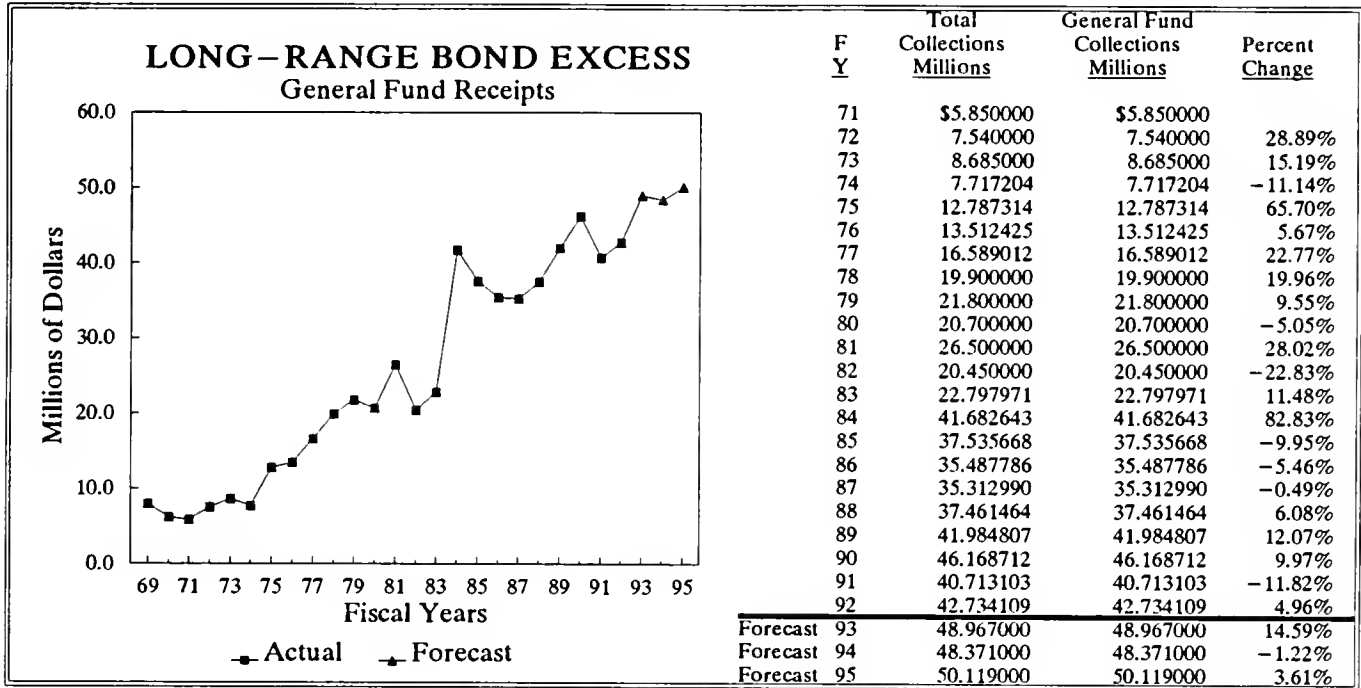
The 1993 Legislature enacted several measures affecting cigarette tax and sales.

Beginning in fiscal 1994, House Bill 46 reserves a percentage of the cigarette tax for the operation and maintenance of state veterans' nursing homes. The amount reserved reduces the amount of cigarette tax distributed to the long range building program for capital projects. The amount distributed to debt service is virtually the same as under current law. The effect on the general fund in the 1995 biennium will be minimal. The distribution of cigarette tax under House Bill 46 is:

	Before August 15, 1993	After August 15, 1993
Veterans' Homes	10.38%	11.11%
Capital Projects	16.82%	18.00%
Debt Service	72.80%	70.89%

Beginning October 1, 1993, House Bill 283 imposes a quota system on cigarette sales on Indian reservations. Each Indian reservation is allowed to sell 150 percent of the national average per capita consumption for each enrolled member of the tribe. As a result of this legislation, sales of untaxed cigarettes are anticipated to decline in the 1995 biennium by \$1.280 million. This will result in \$0.895 million increased revenue for the general fund during the 1995 biennium.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Coal Trust Fund Interest

Article IX, Section 5 requires that 50 percent of all coal severance tax revenue be deposited in a permanent trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house." By statute, interest earned on this trust that is not earmarked to other programs is distributed 85 percent to the general fund and 15 percent to the school equalization account. Beginning in fiscal 1995, all the interest earnings that are not earmarked will be deposited in the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent trust is an important general fund revenue source. During the period fiscal 1981 through fiscal 1992, \$296.3 million in interest from this trust was deposited in the general fund. In fiscal 1992, permanent coal tax trust interest provided 8.2 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 Legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25% of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 Legislatures authorized the Montana Science and Technology Alliance (MSTA) to use \$12.6 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 Legislature authorized MSTTA to invest an additional \$11.0 million from the in-state investment program.

The payback of principal from MSTTA loans returns to the trust. Before July 1, 1993, the interest from MSTTA

loans was distributed in the same manner as other interest earned on the permanent trust fund. House Bill 394, enacted by the 1993 Legislature, created a special revenue account into which all interest earned from MSTTA loans is deposited and from which MSTTA expenses will be paid, with the balance returning to the trust.

Coal tax revenue flowing into the permanent trust is also used to secure state bonds issued to finance water resource development projects and activities. Since 1981 when the legislature authorized this bonding program, \$74.3 million in water development projects throughout the state have been authorized with revenue from these bonds.

During the 1991 regular session, the legislature created the clean coal technology demonstration fund within the permanent coal tax trust and transferred \$25 million from the permanent trust into this subfund. In fiscal 1992 through fiscal 1997, an additional \$5 million a year of the coal tax revenue allocated to the trust must be deposited in this subfund. The legislation allows this portion of the trust fund to be invested in loans for clean coal technology projects approved by the legislature. The 1991 Legislature approved the installation of MHD technology at the Corette power plant in Billings as the first clean coal technology project, making it eligible for a loan in the future. The 1993 Legislature authorized a loan of up to \$25 million for development, engineering, procurement and construction of the Billings MHD demonstration project, which will develop technologies for the production of electricity using clean coal. In order for a loan to be made, the legislature required at least a 4 to 1 federal match. In May, 1993 the U.S. Department of Energy declined to loan MHD Development Corporation funds for the project. Thus, the state loan to MHD may not be made during the 1995 biennium.

The 1991 Legislature also appropriated \$3.25 million from the permanent trust fund for the Microbusiness Development Act. These funds will provide capital to microbusiness development corporations that will provide loans and technical assistance to qualified

GENERAL FUND REVENUES BY COMPONENT

small businesses. Interest earnings and loan repayments are retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent trust fund. The contingency fund provided up to \$25 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as other interest earned on the permanent trust fund. This legislation expired on January 1, 1993. House Bill 667, which was passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid is the school equalization account.

The contingency fund has provided backing for \$23.4 million in school bonds for 14 schools. The average balance in the contingency fund has averaged slightly more than \$2 million. The contingency fund will continue to exist for the next 20 years until these bonds are retired.

In the June 1992 election, voters approved a referendum to create the Treasure State Endowment fund within the permanent coal trust fund. The fund will receive a \$10 million loan from the trust principal in fiscal 1994 and half the funds deposited in the trust during fiscal 1995 through fiscal 2013. Interest earned on the Treasure State Endowment Fund will be used to finance local infrastructure projects, as prioritized by the departments of Commerce and Natural Resources and Conservation and authorized by the legislature.

Table 9 details the distribution in recent years of that portion of the interest earned on the permanent trust that is not earmarked for other programs.

Table 9
Distribution of Coal Trust Fund
Interest

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Permanent Trust</u>	<u>School Equalization</u>
1984-86	85.0%	15.0%	0.0%
1987	100.0	0.0	0.0
1988-89	98.0	2.0	0.0
1990	100.0*	0.0	0.0
1991-94	85.0	0.0	15.0
1995 and Beyond	100.0	0.0	0.0

*Minus \$2.0 million of interest appropriated for medical research facilities.

The 1993 Legislature enacted several measures affecting coal trust fund interest.

House Bill 394 extends the authority of the Montana Science and Technology Board Alliance (MSTA) to loan money from the coal severance tax permanent trust for seed capital projects until the end of fiscal 1997 and for research and development projects until the end of fiscal 1995. The bill also increases the amount of coal tax trust principal available during the renewed period for seed capital project loans to \$15.5 million and for research and development project loans to \$8.1 million. Payback of loans will be deposited in a special revenue account to offset costs of administration by MSTA, after which the payback must be deposited in the coal tax trust. The estimated loss of coal severance tax trust earnings during the 1995 biennium will be \$1.148 million.

House Bill 401 authorizes a loan to the Department of Health and Environmental Sciences from the coal severance tax permanent trust for technical, litigation and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River

GENERAL FUND REVENUES BY COMPONENT

Basin. The amount of the loan is \$2,619,076 for the 1995 biennium and \$5,174,984 to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium. Estimated interest losses to the general fund and the SEA will be \$0.694 million during the 1995 biennium.

House Bill 616 approves a \$25 million loan to the MHD Development Corporation for development, engineering, procurement and construction of the Billings MHD demonstration project which will develop technologies for the production of electricity using clean coal. The loan is subject to the following provisions: 1) the loan period may not exceed 25 years; 2) matching funds from the U.S. Department of Energy (DOE) must be approved through the federal clean coal V funding program; 3) all federal and private matching funds must be at least four times the loan amount; 4) the loan amount may not exceed \$8 million, unless the DOE gives final project approval; and 5) the interest rate must be at the same rate as taxable twenty year general obligation bonds less credits.

6) the interest rate will be reduced by credits for: income or corporate taxes paid by MHD during development and operation, and coal severance taxes

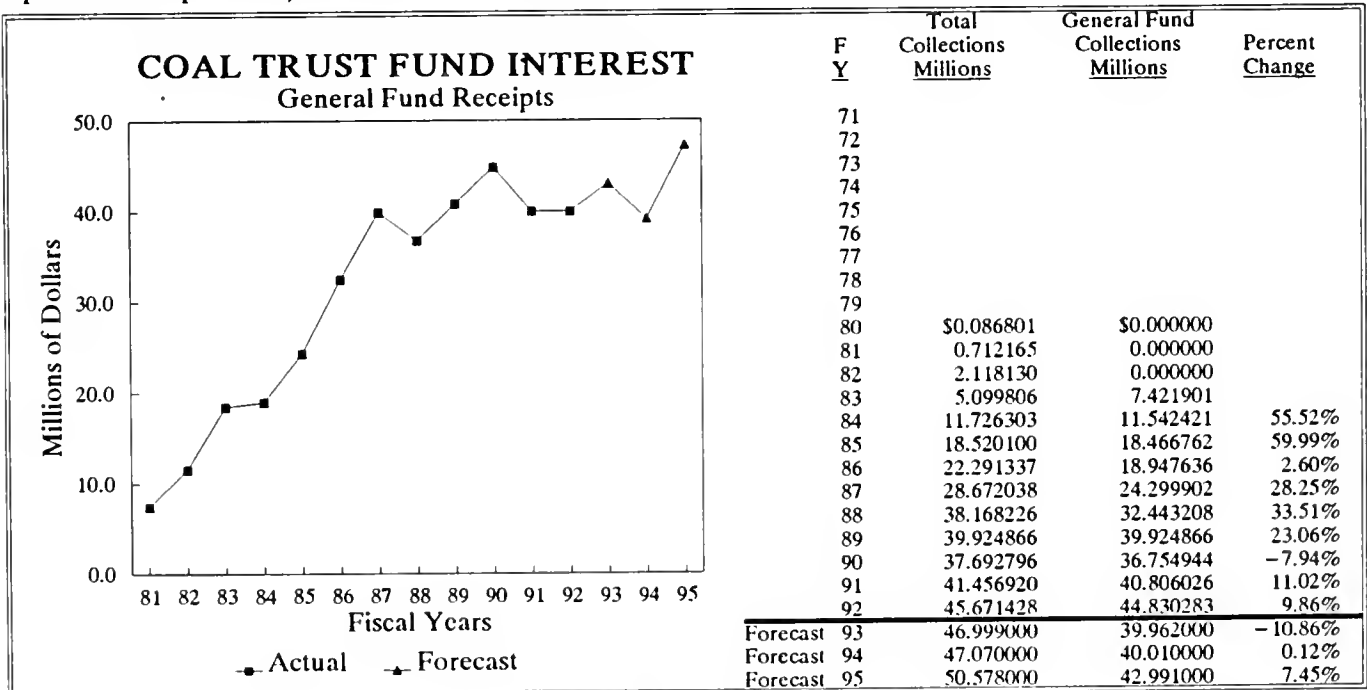
paid by MHD; and additional credits against the interest liability are 0.05 percent for each job created during development up to a total credit of 2.5 percent.

7) the sources of the payback to the state are: up to 5 percent of fees and royalties from the sale, lease or licensing of the technology; and 0.5 percent of all revenues from the sale of component equipment and the revenue from the sale of electricity.

8) Repayment must begin no later than seventeen years from the date the loan is made and must be at least \$0.250 million per year.

9) The MHD development corporation must pay to the general fund at end of fiscal 1994 and fiscal 1995 the amount of interest the general fund would have received had the loan to MHD not taken place. The bill does not require replacement of coal trust interest that would otherwise have been deposited in the SEA in fiscal 1994.

In May, 1993 the DOE declined to loan MHD Development Corporation any amount of money for the project. As a result, the state loan to MHD may not be made during the 1995 biennium.



GENERAL FUND REVENUES BY COMPONENT

Insurance Premiums Tax

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. The tax was first enacted in 1897 and has been amended several times since then. The current tax rate is 2.75 percent of net premiums on policies sold in Montana. Receipts from the tax are distributed to the police and firemen pension funds, with the remainder going to the general fund. In addition to the premiums tax, the State Auditor collects a number of insurance license and fee revenues, which are also deposited in the general fund.

During the July 1992 special session, the legislature imposed a 7 percent surtax on insurance premium tax liability for the period September 1992 through August 1993. The collections from this surtax are allocated to the general fund.

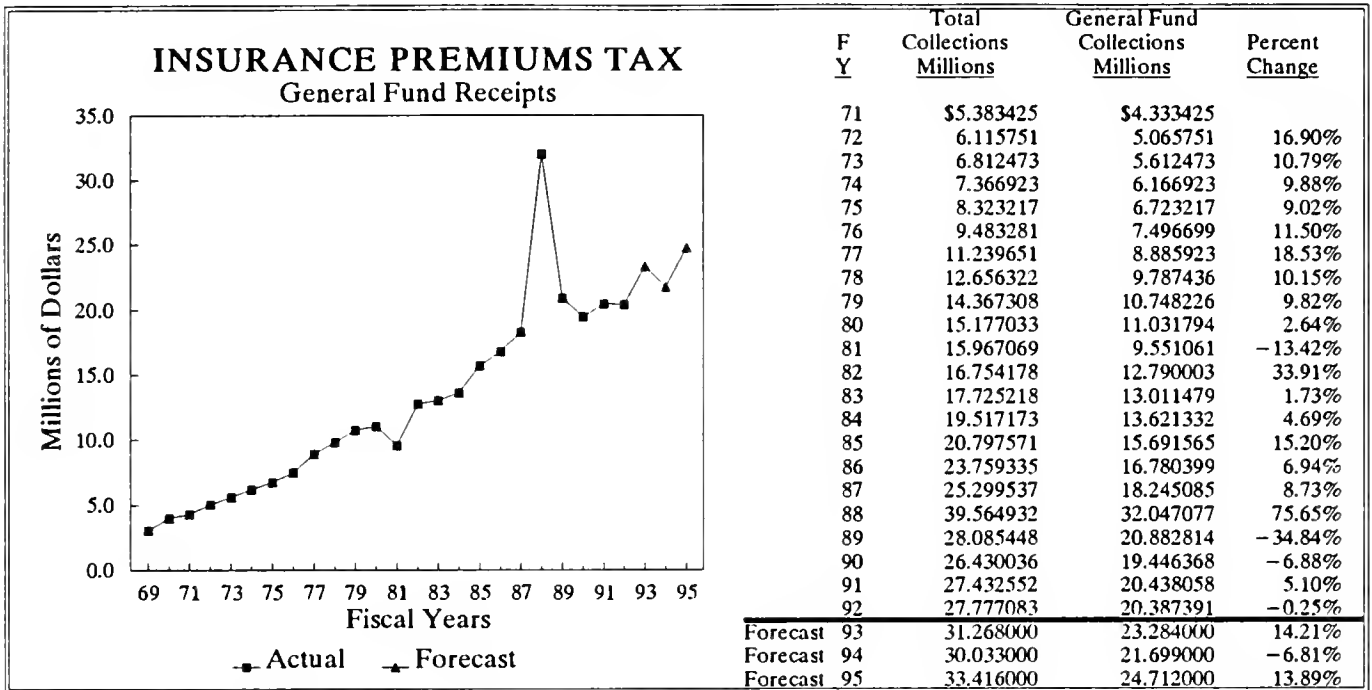
Bills passed during the 1985 and 1989 sessions increased the state contribution to police and firemen's pension funds, reducing the amount of insurance tax deposited in the general fund.

The 1987 Legislature accelerated insurance premium payments from an annual to a quarterly reporting period. An additional \$11.9 million was deposited in the general fund in fiscal 1988 as a result of this acceleration.

Collections from this revenue source are expected to decrease in fiscal 1994 and increase in fiscal 1995 for two reasons. First, the 7 percent surtax will not be assessed in fiscal 1994 as was in fiscal 1993. Second, insurers will claim over \$7.6 million in credits during the biennium, due to the insolvency of the Life of Montana Insurance Company and other companies. Under current law, all insurers are assessed a portion of the insolvency of defaulting insurance companies. Insurers can then claim a credit on their premium tax return equal to 20 percent of the assessment over a five-year period. This credit reduces general fund revenues. In early 1988, Life of Montana was declared to have an insolvency of approximately \$36 million. Insurers began claiming credits for their portion of the assessment in fiscal 1990 and are anticipated to continue claiming credits through fiscal 1998. The total cost to the general fund over the eight-year period will be \$36 million.

The 1993 Legislature enacted House Bill 428 which provides continued funding for the voluntary statewide genetics program in the Department of Health and Environmental Sciences by extending the 70 cent annual fee paid for each Montanan insured as of February 1 of each year under any individual or group disability or health insurance policy. The bill, which will increase general fund revenue by an estimated \$1.090 million during the 1995 biennium, appropriates \$1.069 million general fund during the 1995 biennium.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Public Institution Reimbursements

The Department of Corrections and Human Services receives reimbursements for the cost of sheltering and treating residents at the Montana Developmental Center, Center for the Aged, Montana State Hospital, and the Montana Veteran's Home. There are four sources of reimbursement income: 1) state and federally matched medicaid monies; 2) insurance proceeds from companies with whom the resident is insured; 3) payments by residents or persons legally responsible for them; and 4) federal medicare funds.

All revenue collected from these sources is deposited in the general fund, except reimbursements received for the Veterans' Home, which are appropriated to the institution. Most of the reimbursements come from federal medicaid payments.

Three variables determine the level of medicaid nursing home payments: 1) the number of patient days eligible for medicaid reimbursement; 2) the reimbursement rate per patient day; and 3) the private resources of medicaid patients.

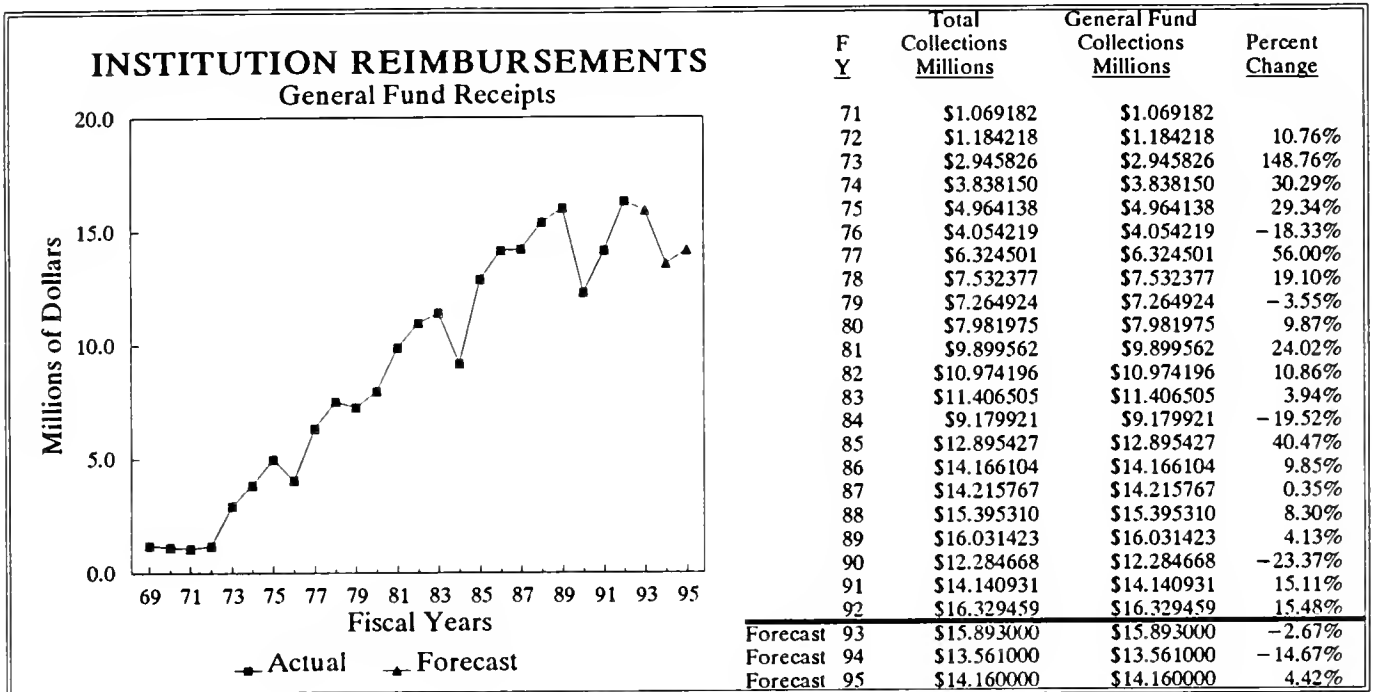
Prior to fiscal 1990, the state's general fund match to federal medicaid payments was included in the Department of Social and Rehabilitation Services' budget and was received (with the federal portion) as revenue by eligible state institutions. Beginning in the 1991 biennium, the state's general fund match was determined from the documented general fund costs of caring for medicaid residents. This change in budgeting procedures reduced reimbursements to the general fund by approximately \$4.0 million annually.

The other three components of reimbursement (insurance proceeds, payments by residents, and medicare funds) are expected to increase by the rate of inflation.

Total collections from this source are anticipated to decline during the 1995 biennium due to reduced population at the Montana Developmental Center and closure of Montana State Hospital at Galen.

The 1993 Legislature enacted House Bill 685, which eliminated licensed acute hospital care and intermediate nursing care at Galen. This will reduce medicaid reimbursement payments to the general fund by an estimated \$1.409 million during the 1995 biennium.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Liquor Profits and Taxes

The Department of Revenue is authorized to sell liquor and wines to the public and retail liquor establishments throughout the state. These sales result in profits and taxes which are deposited in various state and local accounts.

Prices established by the department include a standard mark-up, a 16 percent excise tax, and a 10 percent license tax. The excise tax is deposited in the general fund. The license tax is distributed to the Department of Corrections and Human Services and to cities, towns, and counties for alcohol treatment and rehabilitation programs.

Liquor sales for fiscal 1993 through 1995 are expected to increase modestly. This is a reversal of the trends observed during the late 1980's when liquor consumption was down. Even with an aging population, more emphasis on drug and alcohol education in our schools, and the increased enforcement of DUI laws, liquor consumption has been increasing since fiscal 1991.

The deficit reduction package passed by Congress in November 1990 increased the federal tax on alcohol by 8 percent. This change increased Montana's total liquor sales revenues, translating into larger profits and higher excise taxes. The 1995 biennium forecasts for liquor profits and excise taxes assume no further changes in federal laws.

Operating expenses of the Department of Revenue Liquor Division affect the transfer of liquor profits to

the general fund. It is estimated that these expenses will increase slightly from the fiscal 1993 level of \$7.0 million to \$7.5 million in fiscal 1995.

The increased profits in fiscal 1984, fiscal 1987, fiscal 1991, and fiscal 1992 are attributable to a reduction in the inventory of goods of the liquor division. In fiscal 1990, the department began a "bailment" program, in which private vendors own the liquor and wine stocked in the state warehouse. The product becomes state property once it is loaded on a truck for shipment to a store. The department pays vendors for product purchases every three weeks. Previously, the department purchased stock from liquor vendors and then stored it in the warehouse. This change resulted in a transfer of \$3.75 million in one-time revenue to the general fund in fiscal 1991.

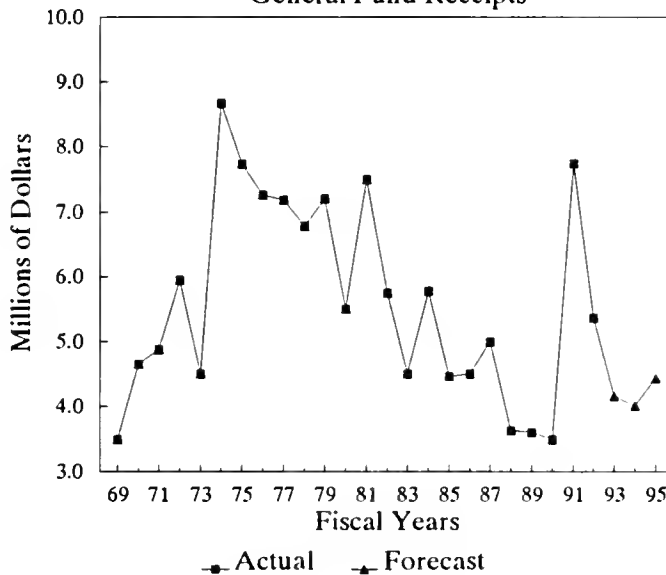
During the July 1992 special session, the legislature imposed a 7 percent surtax on liquor excise taxes for the period September 1992 through August 1993. The revenue collected from this surtax is allocated to the general fund.

The 1993 Legislature passed House Bill 609 which transfers the investigative functions related to alcoholic beverage licensing and enforcement, tobacco and public assistance from the Department of Revenue to the Gambling Control Division of the Department of Justice. The bill also appropriates \$215,000 from the liquor enterprise fund to the Department of Justice for costs associated with the transfer. This appropriation will reduce the amount remaining in the liquor enterprise fund that is ultimately deposited in the general fund.

GENERAL FUND REVENUES BY COMPONENT

LIQUOR PROFITS

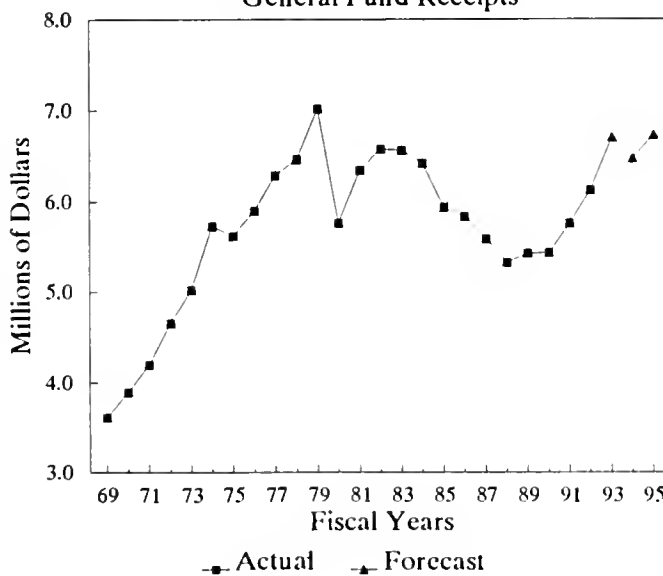
General Fund Receipts



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
71	\$5.225968	\$4.878745	
72	6.624576	5.950000	21.96%
73	7.704053	4.500000	-24.37%
74	7.274480	8.675600	92.79%
75	7.521853	7.738305	-10.80%
76	7.104050	7.260551	-6.17%
77	7.314754	7.189862	-0.97%
78	7.576469	6.778951	-5.72%
79	7.788463	7.200000	6.21%
80	6.025915	5.500887	-23.60%
81	6.028851	7.499113	36.33%
82	5.681187	5.750000	-23.32%
83	5.010213	4.500000	-21.74%
84	5.408943	5.782000	28.49%
85	4.340660	4.466000	-22.76%
86	4.408188	4.500000	0.76%
87	3.863635	5.000000	11.11%
88	3.785922	3.633000	-27.34%
89	3.789483	3.600000	-0.91%
90	4.162346	3.500000	-2.78%
91	4.002685	7.750000	121.43%
92	4.066057	5.363000	-30.80%
Forecast 93	4.155000	4.155000	-22.52%
Forecast 94	4.008000	4.008000	-3.54%
Forecast 95	4.440000	4.440000	10.78%

LIQUOR EXCISE TAX

General Fund Receipts



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
71	\$5.256299	\$4.197793	
72	5.832888	4.652984	10.84%
73	6.285037	5.022561	7.94%
74	7.054522	5.730242	14.09%
75	7.383326	5.625391	-1.83%
76	7.744188	5.900333	4.89%
77	8.251359	6.286748	6.55%
78	10.528892	6.459007	2.74%
79	11.406432	7.022237	8.72%
80	9.367704	5.764741	-17.91%
81	10.300261	6.340958	10.00%
82	10.675236	6.572066	3.64%
83	10.655421	6.559727	-0.19%
84	10.422641	6.415784	-2.19%
85	9.642852	5.935058	-7.49%
86	9.482576	5.836884	-1.65%
87	9.079530	5.589174	-4.24%
88	8.646707	5.322934	-4.76%
89	8.813624	5.423769	1.89%
90	8.814424	5.428076	0.08%
91	9.361042	5.759437	6.10%
92	9.946010	6.122351	6.30%
Forecast 93	10.613000	6.700000	9.44%
Forecast 94	10.509000	6.467000	-3.48%
Forecast 95	10.921000	6.721000	3.93%

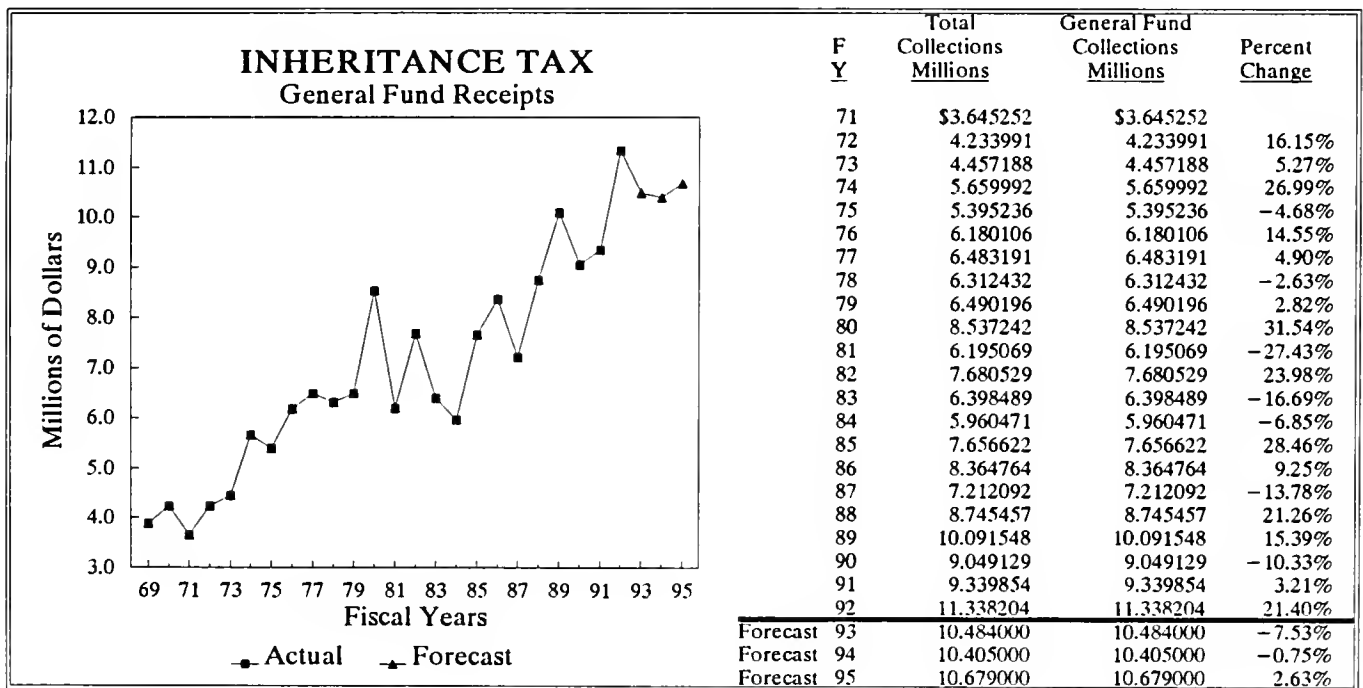
GENERAL FUND REVENUES BY COMPONENT

Inheritance Tax

The inheritance tax is imposed on the transfer of any decedent's property, interest in property, or income from property within the state to any other person or corporation except a surviving spouse, or governmental or charitable organization. The tax rate varies from 0 to 32 percent depending on the size of the estate and the relationship of the decedent to the beneficiary.

All revenue collected from the inheritance tax is deposited in the general fund.

Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, accounting procedures, and the processing of several large estates. The forecasts for fiscal 1993 through 1995 assume that collections will be slightly more than \$10.0 million per year.



GENERAL FUND REVENUES BY COMPONENT

Metal Mines Tax

The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced.

For tax years beginning after December 31, 1988, the tax rate is as follows:

For concentrates shipped to a smelter, mill, or reduction work:

<u>Gross Value</u>	<u>Rate</u>
\$0-\$250,000	Exempt
\$250,001 and Above	1.8%

For gold, silver, or any platinum group metal that is dore, bullion, or matte and that is shipped to a refinery:

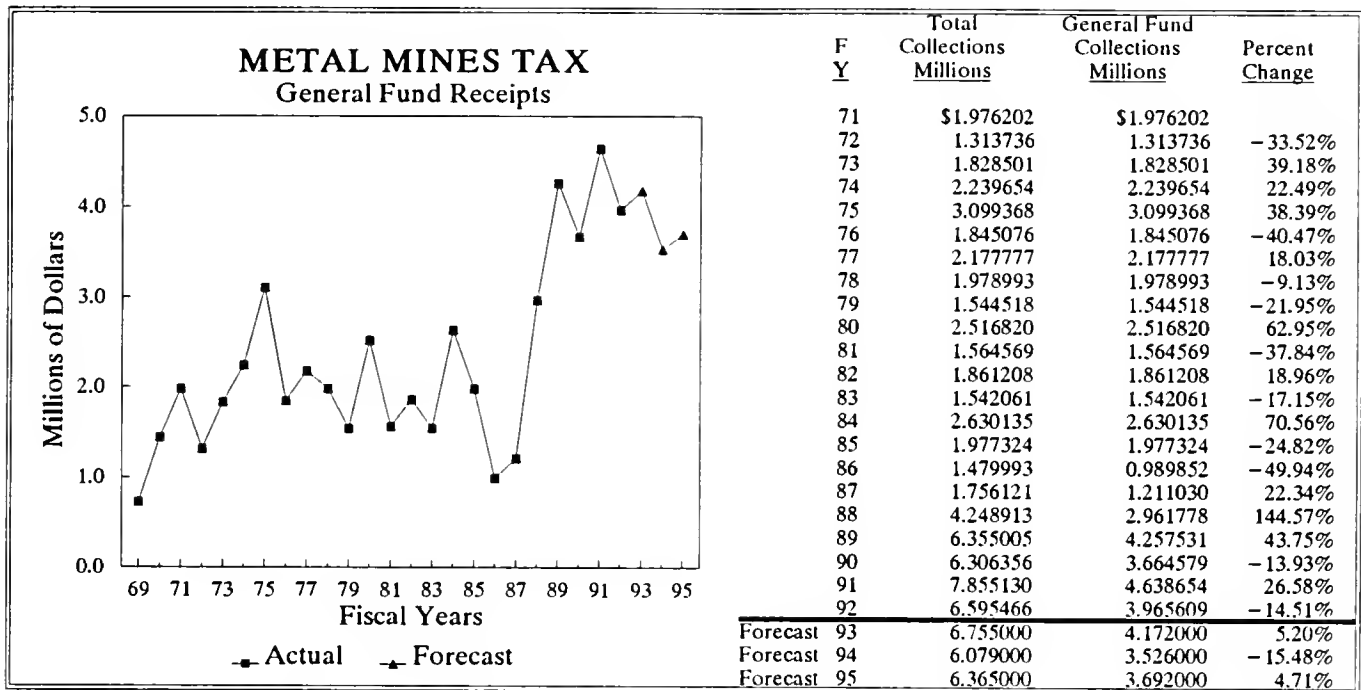
<u>Gross Value</u>	<u>Rate</u>
\$0-\$250,000	Exempt
\$250,001 and Above	1.6%

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal 1986, one-third of the receipts were deposited in a hard-rock mining trust account. The distribution for collections for tax years beginning after December 31, 1988 is: 1) 58 percent to the general fund; 2) 1.5 percent to the hard-rock mining impact trust account; 3) 15.5 percent to the resource indemnity tax trust fund; and 4) 25 percent to the county in which the mine is located.

During the July 1992 special session, the legislature imposed a 7 percent surtax on all production during calendar 1992. The collections from this surtax are allocated 100 percent to the general fund.

Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines tax receipts. Prices for gold, silver, copper, lead, zinc, molybdenum, palladium, and platinum are expected to remain relatively constant during the forecast period. Based on information from the major metal producers in the state, production levels for these minerals are expected to increase slightly throughout the forecast period.

GENERAL FUND REVENUES BY COMPONENT



GENERAL FUND REVENUES BY COMPONENT

Electrical Energy Tax

The electrical energy tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. The tax of \$.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy used by the plant for the production of the energy. All receipts are deposited in the general fund.

Total electricity production in Montana is projected to increase slightly during the 1995 biennium. These assumptions are based on production estimates supplied by the major producers.

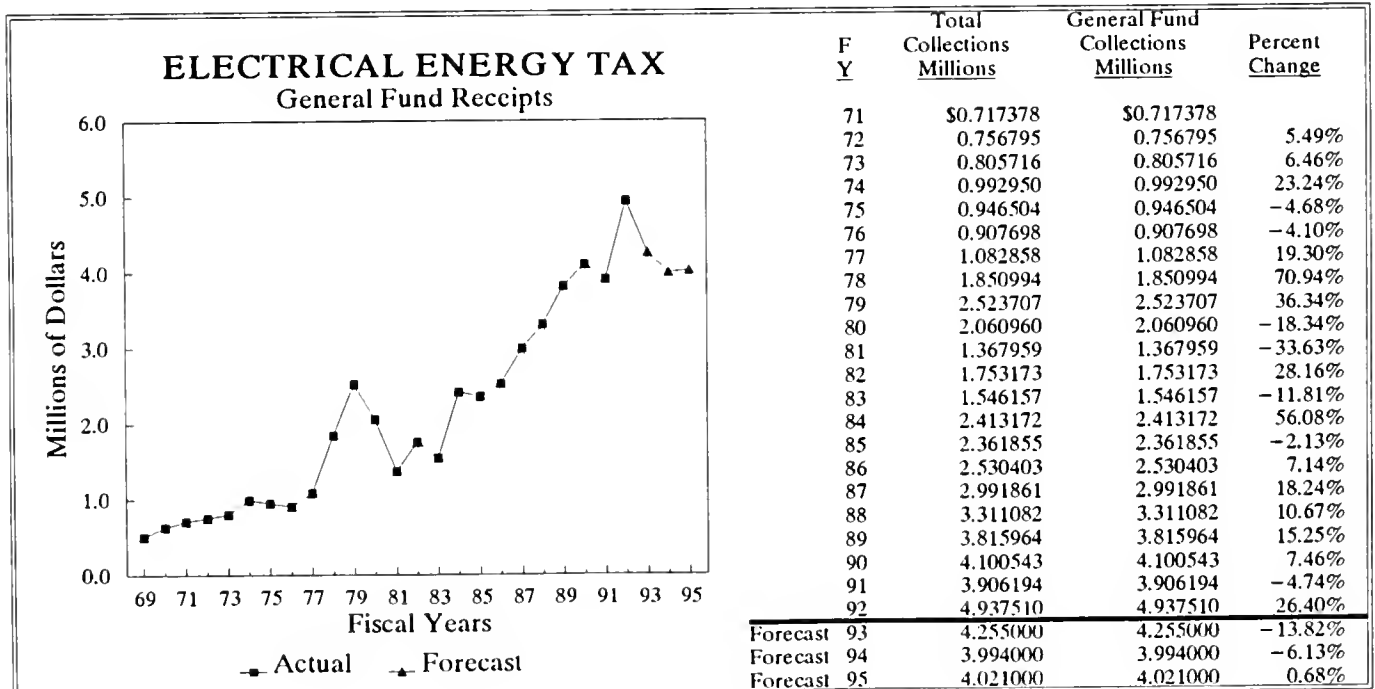
Electrical energy taxes may be reduced by an interest differential credit claimed by the producers. This credit is determined by the difference between the actual interest received on energy conservation loans and the average interest rate for home improvement loans. These credits are expected to reduce revenues by approximately \$0.3 million per year.

All the collections from this tax are deposited in the general fund.

During the July 1992 special session, the legislature imposed a 7 percent surtax on all tax liabilities from this source for calendar quarters beginning after June 30, 1992, and before July 1, 1993. Collections from this surtax were also deposited in the general fund.

Fiscal 1992 collections are \$0.8 million higher than previous years, due to an executive change in accrual methods. Beginning in fiscal 1992, a "full" accrual method replaced the "modified" accrual method previously used.

House Bill 680 passed by the 1993 Legislature eliminates the interest differential tax credit a corporation is allowed to take under current law for low interest loans for qualifying installations of energy saving materials or devices. This bill applies to all loans made after July 1, 1995.



GENERAL FUND REVENUES BY COMPONENT

Drivers' License Fees

A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays a fee. The fees are collected by motor vehicle division staff or county treasurers and are forwarded to the state treasurer for deposit. Of the fees collected, 53.75 percent go to the general fund, 17.50 percent to the traffic safety and education account, 25 percent to the highway patrol retirement account, and 3.75 percent to counties or the Department of Justice, depending on who collects the fee.

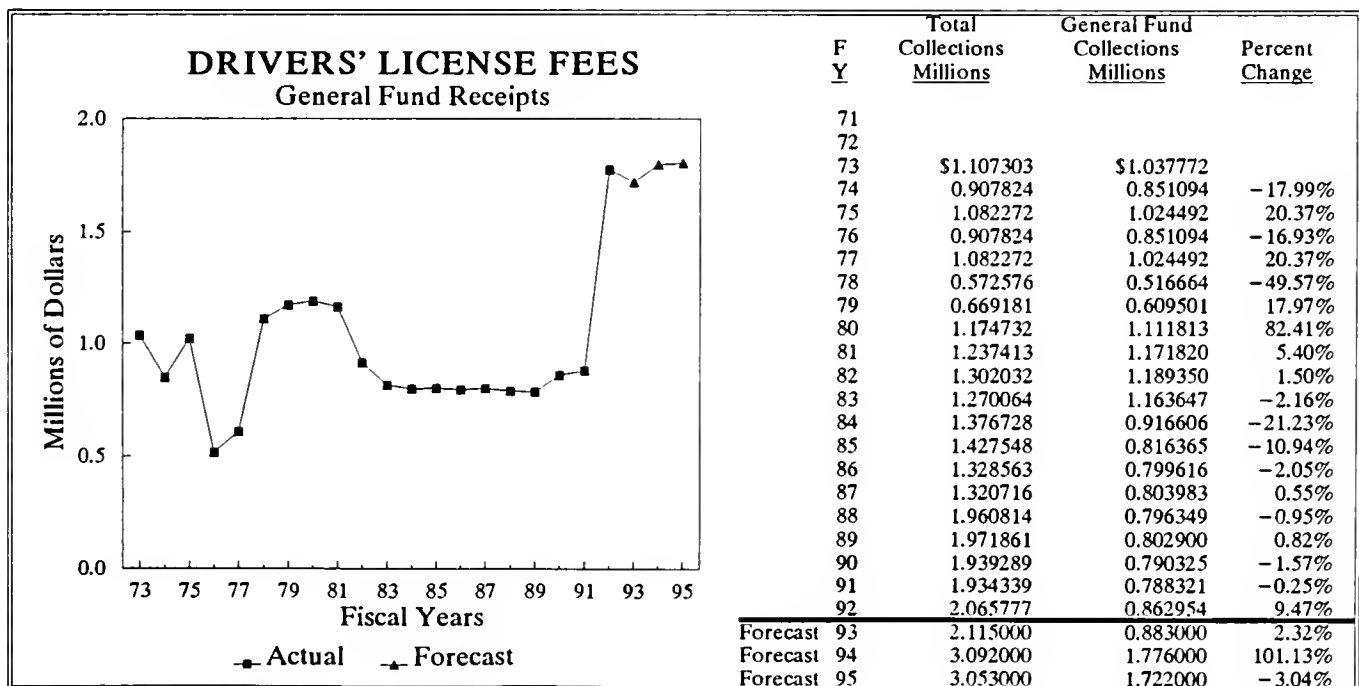
Drivers' license fees are influenced by Montana population growth in the age cohort 16 years and older. It is estimated that the number of people in this group will increase by approximately 0.33 percent per year. Based on this growth rate, receipts are expected to

increase in fiscal 1994 and fiscal 1995. The increase in fiscal 1990 receipts is due to commercial vehicle operator's endorsement fees being deposited to the general fund.

Also included in this component of revenue prior to fiscal 1992 are motorcycle endorsement fees and duplicate driver's license fees.

The 1991 Legislature increased fees for regular driver's licenses and commercial vehicle operator endorsements. Annual regular driver's license fees increased from \$3 per year to \$4 per year, and annual commercial vehicle operator endorsements increased by \$2.00 per year. In addition, the bill altered the distribution of these fees, increasing the general fund allocation.

Fiscal 1992 collections are slightly higher than previous years, due to an executive decision to change from a "modified" to a "full" accrual method.



GENERAL FUND REVENUES BY COMPONENT

Telephone License Tax

The telephone company license tax is levied on the gross income earned by any telephone business within the state, including the transmission of telephone messages by line or by microwave equipment. An exemption is allowed for the first \$250 of gross income earned each quarter. The current tax rate of 1.8 percent is applied to the adjusted gross income level. All collections are deposited in the general fund.

During the 1991 regular session, Senate Bill 462 amended this tax from 1.725 percent to 1.8 percent of gross income. Gross income was redefined to exclude the sale of services between telephone companies and customer access line charges.

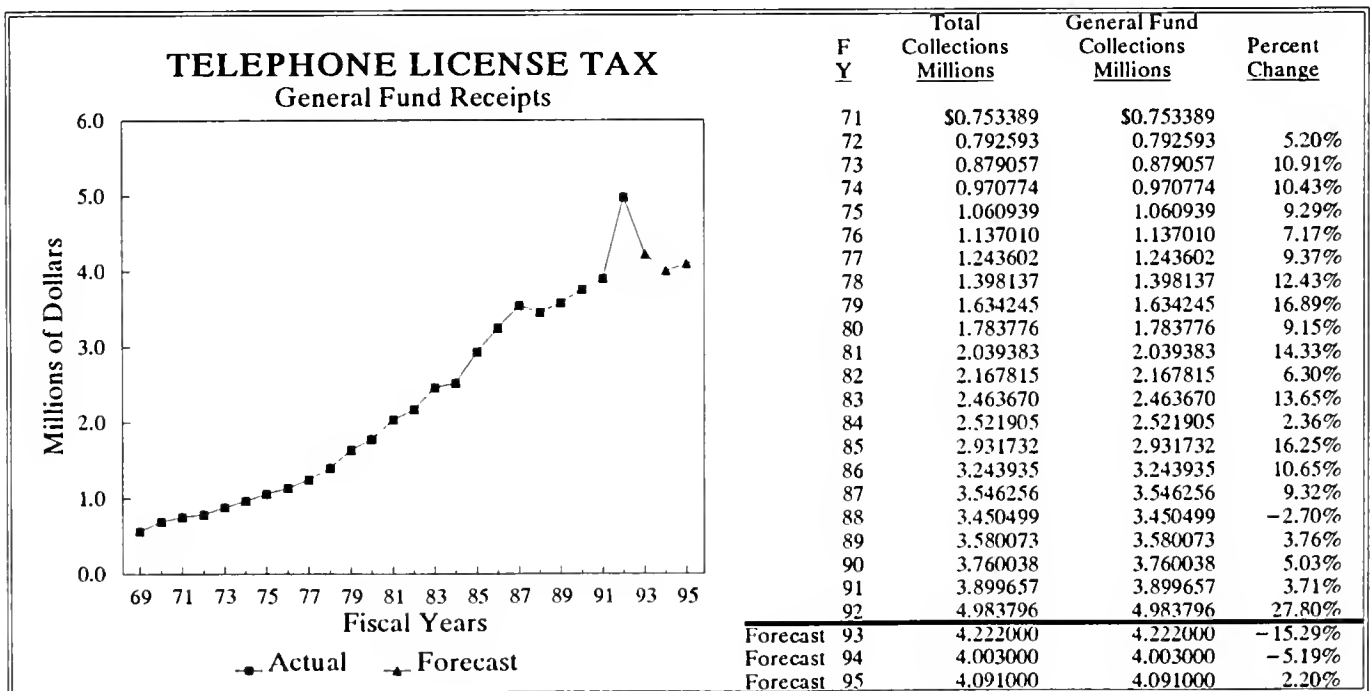
During the July 1992 special session, the legislature imposed a 7 percent surtax on telephone company license tax liabilities incurred for calendar quarters

beginning after June 30, 1992, and before July 1, 1993. Collections from this surtax are also deposited in the general fund.

"One-time" revenue of \$1.0 million was received in fiscal 1992, due to an executive decision to change from a "modified" to a "full" accrual accounting method.

Telephone license tax revenues are forecast using the anticipated level of telephone companies gross income. Gross income is dependent on the quantity of services provided and the price of the services offered. As the employment base of the state grows and the business economy expands, the demand for these type of services increases.

Revenue forecasts for the telephone license tax are based on modest employment growth and a slight economic expansion for businesses. These assumptions equate to approximately a 2.2 percent annual growth in taxable income.



GENERAL FUND REVENUES BY COMPONENT

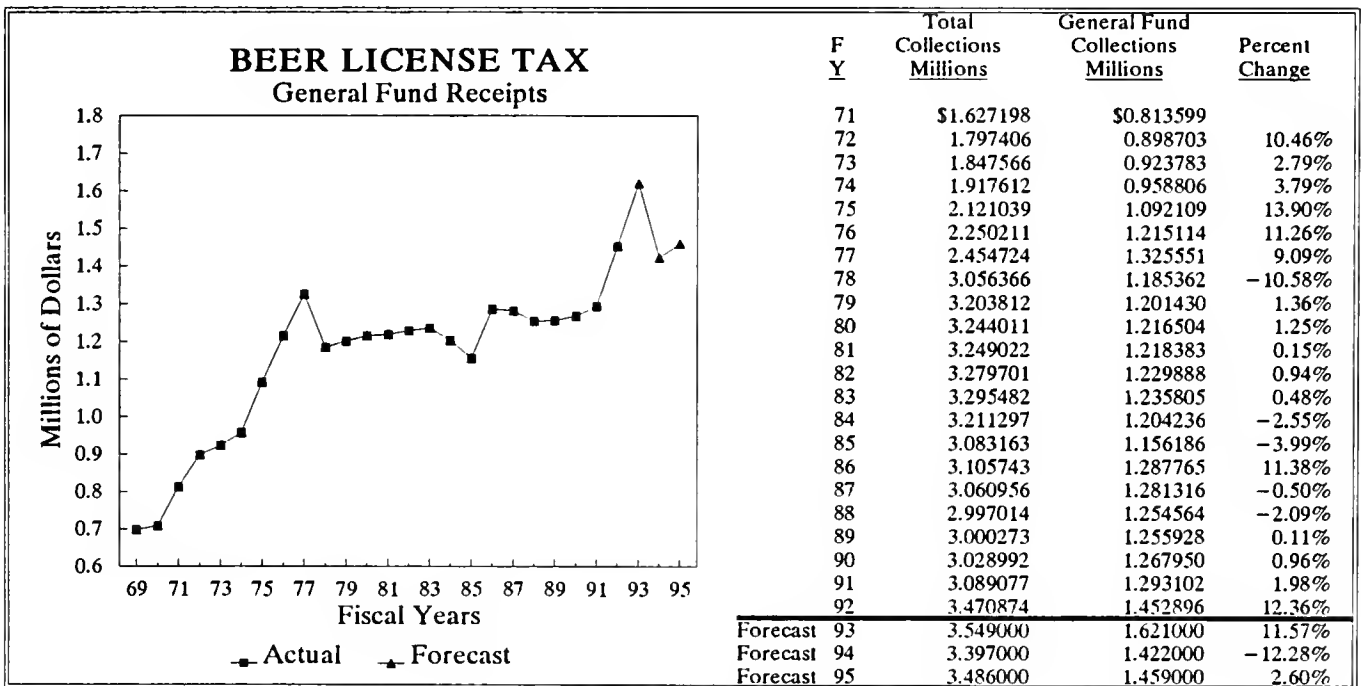
Beer License Tax

A tax of \$4.30 is levied on each barrel of beer produced in or imported into Montana. Currently, 41.86 percent of the receipts are distributed to the general fund, 34.88 percent to the Department of Corrections and Human Services alcoholism account, and 23.26 percent to cities and towns.

During the July 1992 special session, the legislature imposed a 7 percent surtax on beer tax liabilities for one year (September 1992 through August 1993). Collections from this surtax are also deposited in the general fund.

"One-time" general fund revenues of \$0.1 million were collected in fiscal 1992, due to an executive decision to change from a "modified" to a "full" accrual accounting method.

Beer consumption on a per capita basis declined in fiscal 1987 through 1989. However, in fiscal 1990 through 1992, per capita consumption increased, reversing a nine-year declining trend. Consumption is anticipated to increase at approximately 2.5 percent per year in the 1995 biennium.



GENERAL FUND REVENUES BY COMPONENT

Natural Gas Severance Tax

A natural gas severance tax is imposed on the production of natural gas in Montana. The tax rate of 2.65 percent is applied to the total gross value of natural gas produced from each lease or unit. All receipts are deposited in the general fund.

During the July 1992 special session, the legislature imposed a 7 percent surtax on all tax liabilities from this source for production that occurred during fiscal 1993. Collections from this surtax will also be deposited in the general fund.

"One-time" general fund revenue of \$.28 million was collected in fiscal 1992, due to an executive change in accrual methods. Beginning in fiscal 1992, a "full" accrual method replaced the "modified" accrual method previously used.

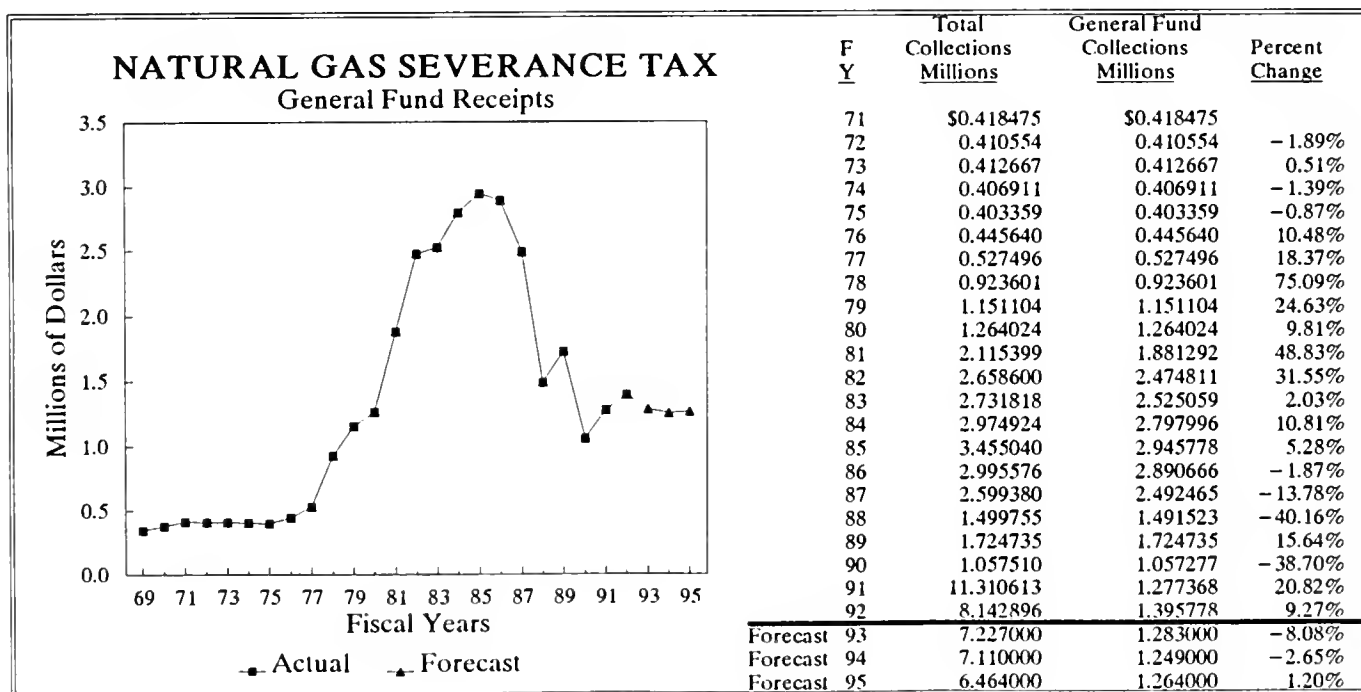
Natural gas production has declined since calendar 1979, but this trend reversed in calendar 1988 and 1989. Total production is expected to increase at less

than two percent per year throughout the forecast period.

Average natural gas well-head prices are expected to increase in calendar 1993 through 1995.

The decrease in collections beginning in fiscal 1988 resulted from legislation passed in 1987 that: 1) exempted from taxation the first 30,000 cubic feet of average daily production from stripper wells; 2) reduced the tax rate on the remaining production from stripper wells; and 3) exempted from taxation all new production for the first 24 months of production. The tax exemption for new production ended in August 1990, when the price of oil reached \$25 per barrel.

The 1993 Legislature enacted Senate Bill 206 which clarifies that the 7 percent surtax passed in the July 1992 special session does not apply to stripper natural gas wells producing 60,000 cubic feet or less per day. This bill decreases anticipated general fund revenue by \$0.182 million during the 1995 biennium. Because this bill is retroactive, some revenue will be lost during fiscal 1993.



GENERAL FUND REVENUES BY COMPONENT

Freight Line Tax

Prior to 1991, the freight line company tax was assessed on the gross earnings of every railroad freight line company operating in Montana. Freight line companies are defined as companies operating or leasing railroad freight cars but not owning the rails over which the cars travel. The tax rate of 5.50 percent was applied to the gross earnings derived from business during the calendar year. All collections from this tax were deposited in the general fund.

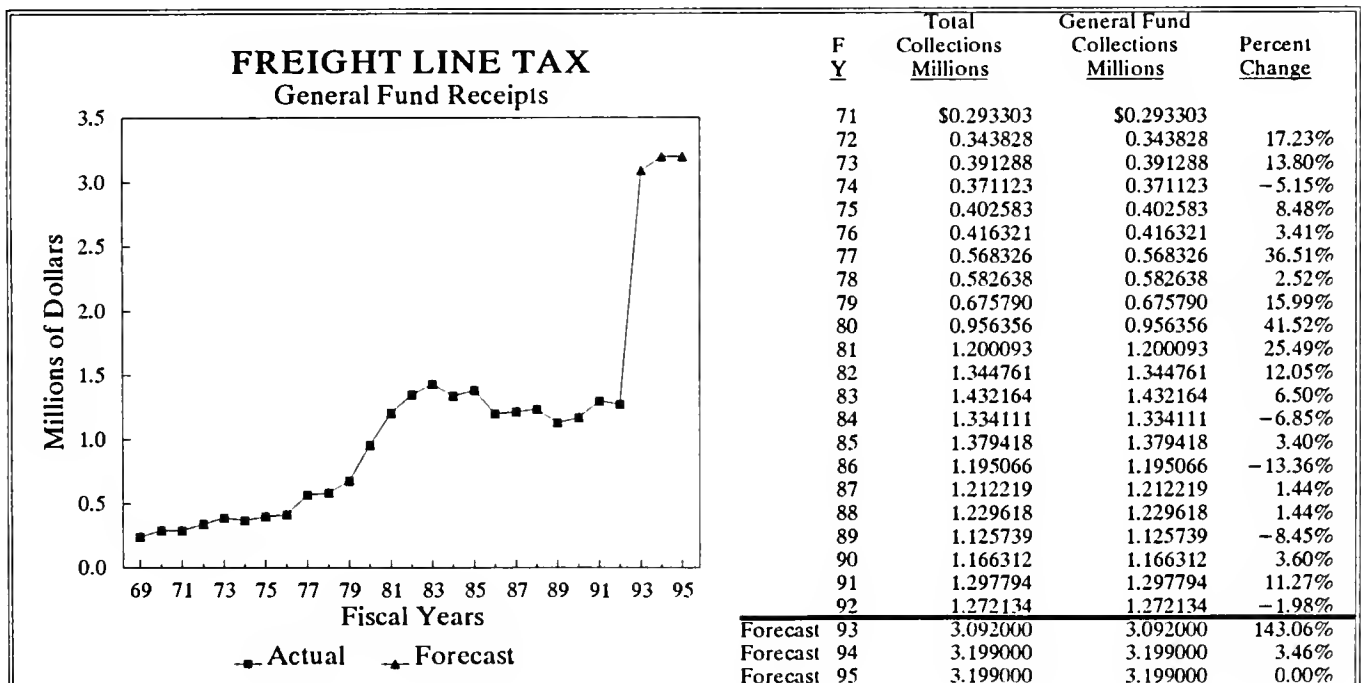
During the July 1992 special session, the legislature enacted House Bill 24, which repealed the freight line company tax retroactive to tax years after December 31, 1990. Revenue from the tax which was received for tax years after this date will be returned to the companies which paid the tax.

House Bill 24 placed all property of a railroad car company in property class twelve, beginning in January 1, 1991. Class twelve property subject to taxation is defined in the Railroad Revitalization and

Regulatory Reform Act of 1976. The tax rate for class twelve property is the lesser of 12 percent or the average tax rate for commercial and industrial property. Railroad car companies, which operate in several states, pay taxes on the portion of the property allocated to Montana, based on the ratio of the car miles traveled within Montana to the total number of car miles traveled in all states.

The revenue from this tax is deposited in the general fund.

The 1993 Legislature enacted House Bill 640 which revises the tax rate for railroad cars. The new tax rate is equal to the previous year's average statewide levy for commercial and industrial property. The revision in the tax rate will reduce anticipated general fund revenue in the 1995 biennium by \$0.299 million. Revenues in the 1993 biennium will also be reduced by \$0.218 million. In June 1993, the Department of Revenue reported that litigation concerning the revised tax imposed in House Bill 24 may result in revenue collections substantially below the HJR3 estimate.



GENERAL FUND REVENUES BY COMPONENT

Wine Tax

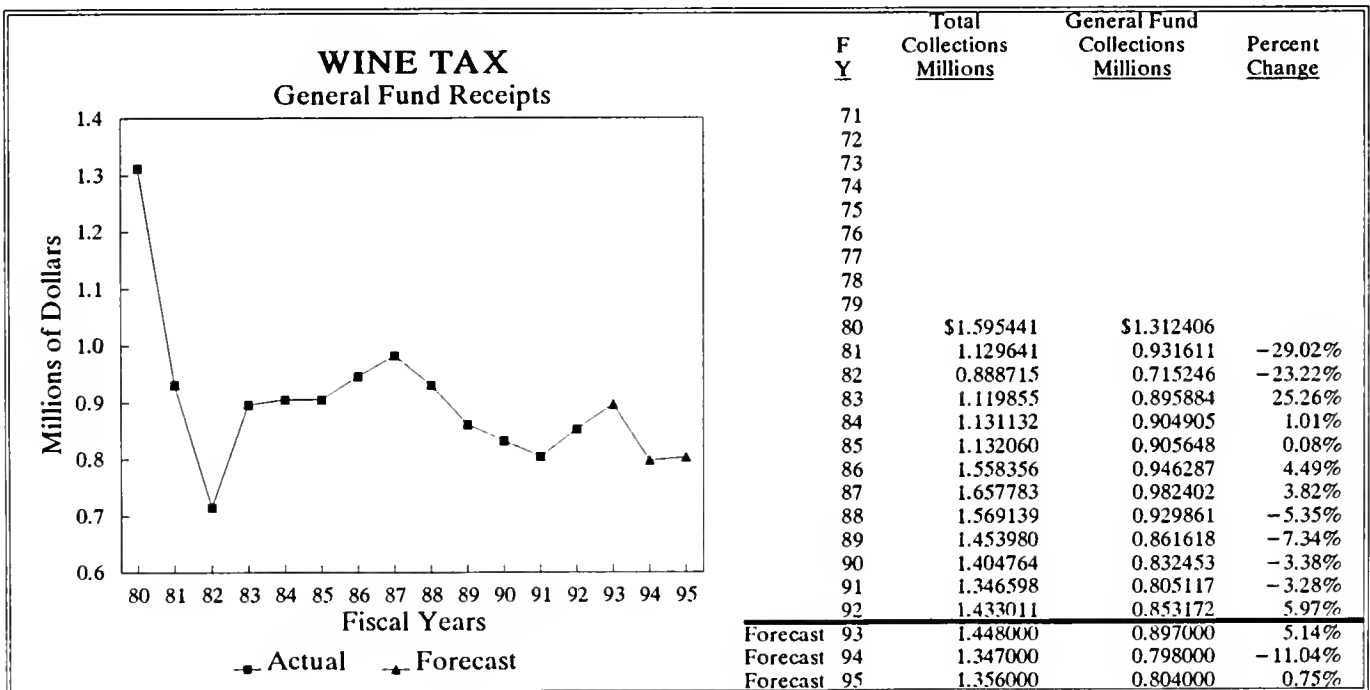
A wine tax is levied on table wines imported into Montana by wine distributors or the Department of Revenue. The \$0.27 per liter tax is distributed in the following manner: 59.26 percent to the general fund; 30.89 percent to the Department of Corrections and Human Services alcoholism account; 9.85 percent to counties and cities.

Since wine taxes are not based on the value of the commodity, revenues are a function of consumption. Montana's per capita consumption declined by 2.6 percent in fiscal 1990, 4.9 percent in fiscal 1991, and

increased 1.0 percent in fiscal 1992. Total revenues for fiscal 1993 through 1995 are expected to decline further but at a slower rate.

During the July 1992 special session, the legislature imposed a 7 percent surtax on all tax liabilities from this source for one year (September 1992 through August 1993). Collections from this surtax will also be deposited in the general fund.

Fiscal 1992 collections increased slightly, due to an executive change in accrual methods. Beginning in fiscal 1992, a "full" accrual method replaced the "modified" accrual method previously used.



GENERAL FUND REVENUES BY COMPONENT

Video Gaming Net Income Tax

The Department of Justice is authorized to collect a 15 percent tax on the net income of each licensed video gambling machine. One-third of the collections is deposited in the general fund, with the remainder distributed to the incorporated cities and towns or counties in which the licensed machines are located.

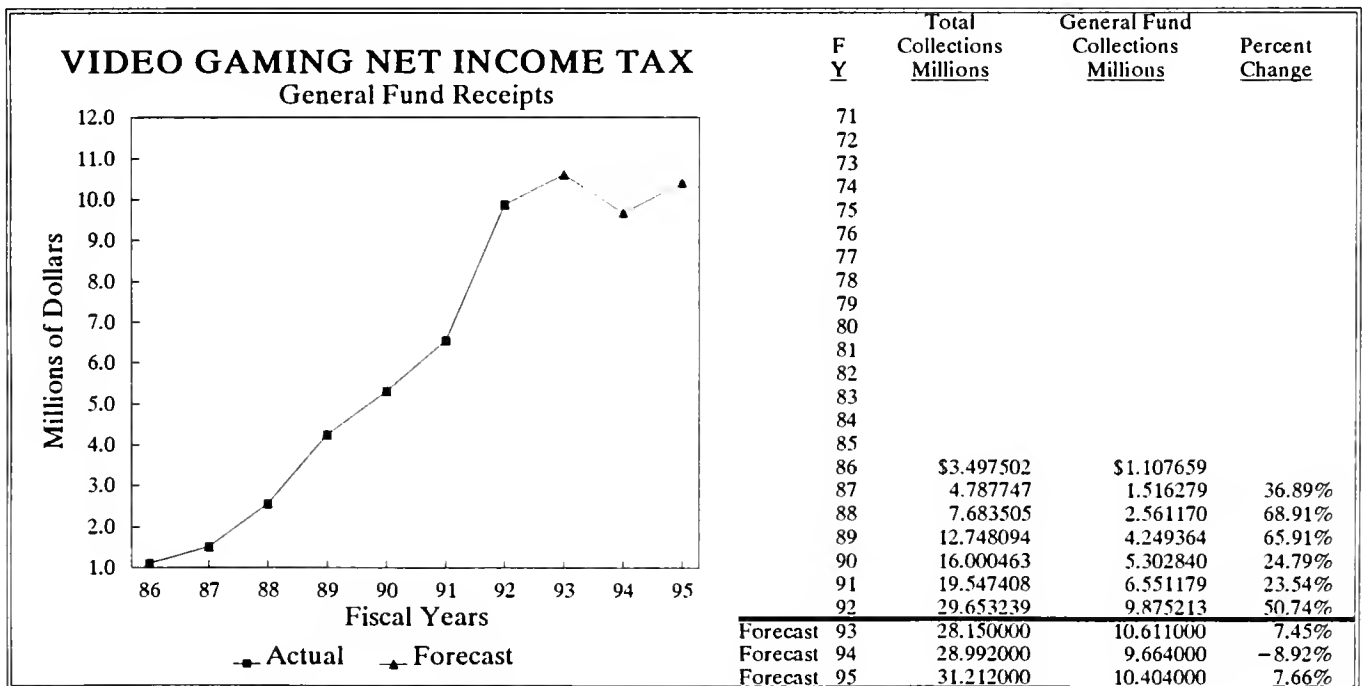
During the July 1992 special session, the legislature imposed a 7 percent surtax on all tax liabilities from this source for calendar quarters beginning after June 30, 1992 and before July 1, 1993. Total collections from this surtax will be deposited in the general fund.

Fiscal 1992 collections are higher than previous years, due to an executive change in accrual methods. Beginning in fiscal 1992, a "full" accrual method

replaced the "modified" accrual method previously used.

Video gaming revenues have been one of the fastest growing general fund revenue sources. This growth is expected to continue throughout the forecast period but at a declining rate. This assumption is based on a limited population base and modest disposable income growth.

In addition to the net increase tax, the department collects \$200 for each video gambling machine permit, \$100 to be retained by the department for administrative purposes, and \$100 to be returned to the local government jurisdiction in which the machine is located. An annual license fee of \$1,000 is also charged to manufacturers-distributors of video gambling machines.



GENERAL FUND REVENUES BY COMPONENT

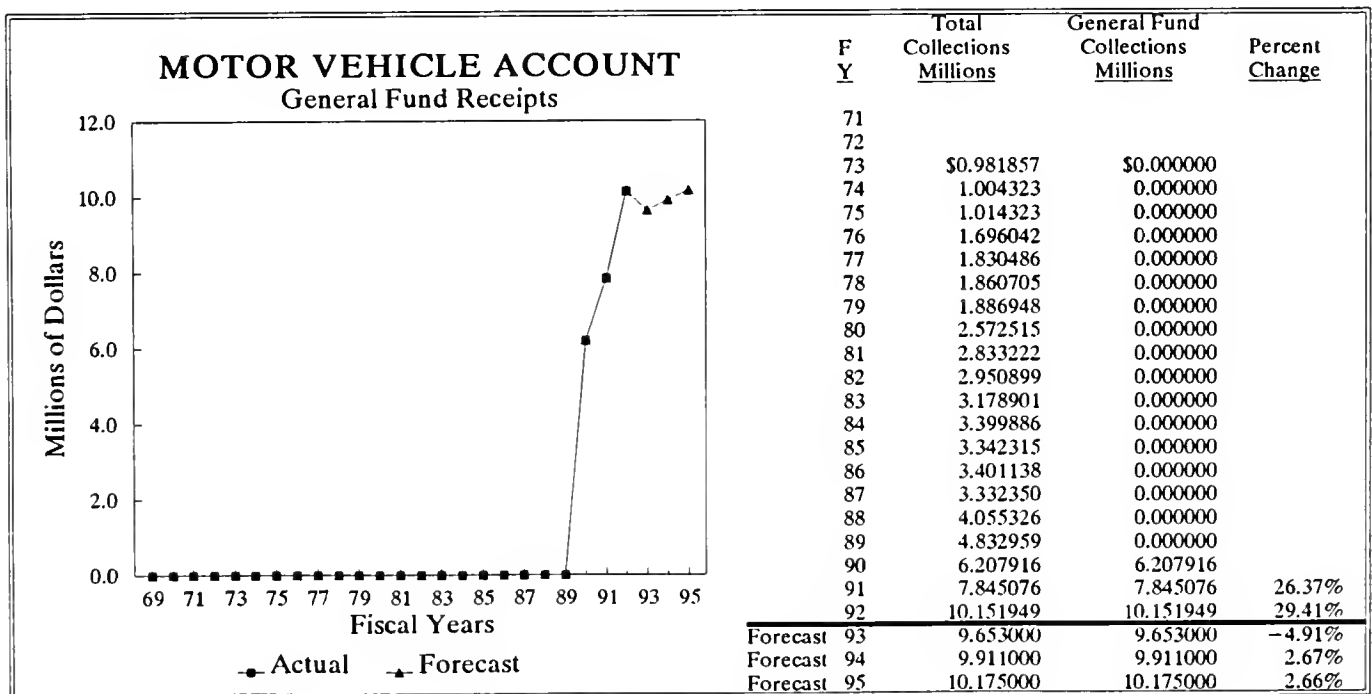
Motor Vehicle Account

With the enactment of House Bill 744, the 1989 Legislature eliminated the state special revenue motor vehicle recording account and required all receipts be deposited in the general fund. Effective July 1, 1989, the fund balance and all of the following fees collected by the Department of Justice are deposited in the general fund:

1) \$4 of the \$6 motorboat or sailboat certificate of ownership or transfer of ownership fee; 2) \$2 of the \$3 snowmobile certificate of ownership fee; 3) the \$0.50 snowmobile registration fee; 4) all money collected from snowmobile dealer registration and renewal registration fees; 5) all money collected from the filing of security interests or other liens against motor

vehicles and recreation vehicles; 6) the \$6 certificate of ownership fee; 7) \$3 additional registration fee for the registration of public-owned vehicles exempt from license or registration fees; 8) the \$20 personalized license plate fee, the \$10 special license plate fee for military veterans, and the \$5 renewal or transfer fee; 9) the \$1 fee for the motor vehicle computer fee; 10) all fees for handicapped display cards; 11) \$3.50 of the \$5 fee for certificate of ownership of an off-highway vehicle; and 12) the \$30 fee for the licensing of wholesaler motor vehicle operations.

Fiscal 1992 revenue collections are higher due to the executive decision to change from a "modified" to "full" accrual accounting system. This resulted in a one-time increase in revenue of \$0.75 million in the motor vehicle account in fiscal 1992.



GENERAL FUND REVENUES BY COMPONENT

Vehicle Tax

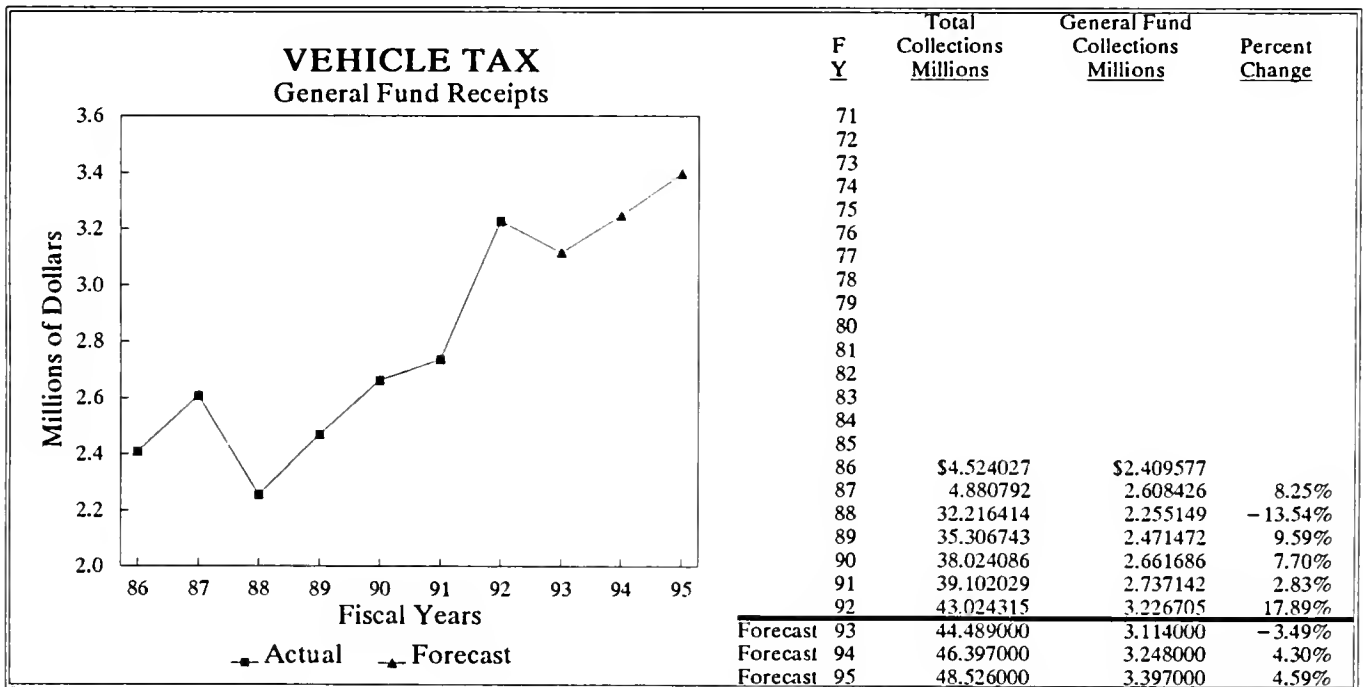
Motor vehicles are assessed for taxes on the first day of the registration period. The assessment is based on the average trade-in or wholesale value as of January 1. The National Automobile Dealers Association (NADA) Official Used Car Guide, the National Edition of NADA Appraisal Guides Official Older Used Car Guide, or the retail value of the vehicle as determined by the county assessor is used for this purpose.

If the value shown in any of the appraisal guides is less than \$500, the value of the vehicle is set at \$500. The amount of tax due is based on 2 percent of the assessed value.

The statewide value of vehicles is forecast to increase approximately 4 percent per year. This rate includes the value of the vehicle plus the growth in the number of vehicles.

Seven percent of these taxes is remitted to the state general fund for purposes of funding district court expenses. The remainder is distributed based on the relative proportions of mill levies for state, county, school district, and municipal purposes.

Fiscal 1992 revenue collections are higher due to the executive decision to change from a "modified" to "full" accrual accounting system. This resulted in a one-time increase in revenue of \$0.23 million in vehicle tax in fiscal 1992.



GENERAL FUND REVENUES BY COMPONENT

Public Contractors Tax

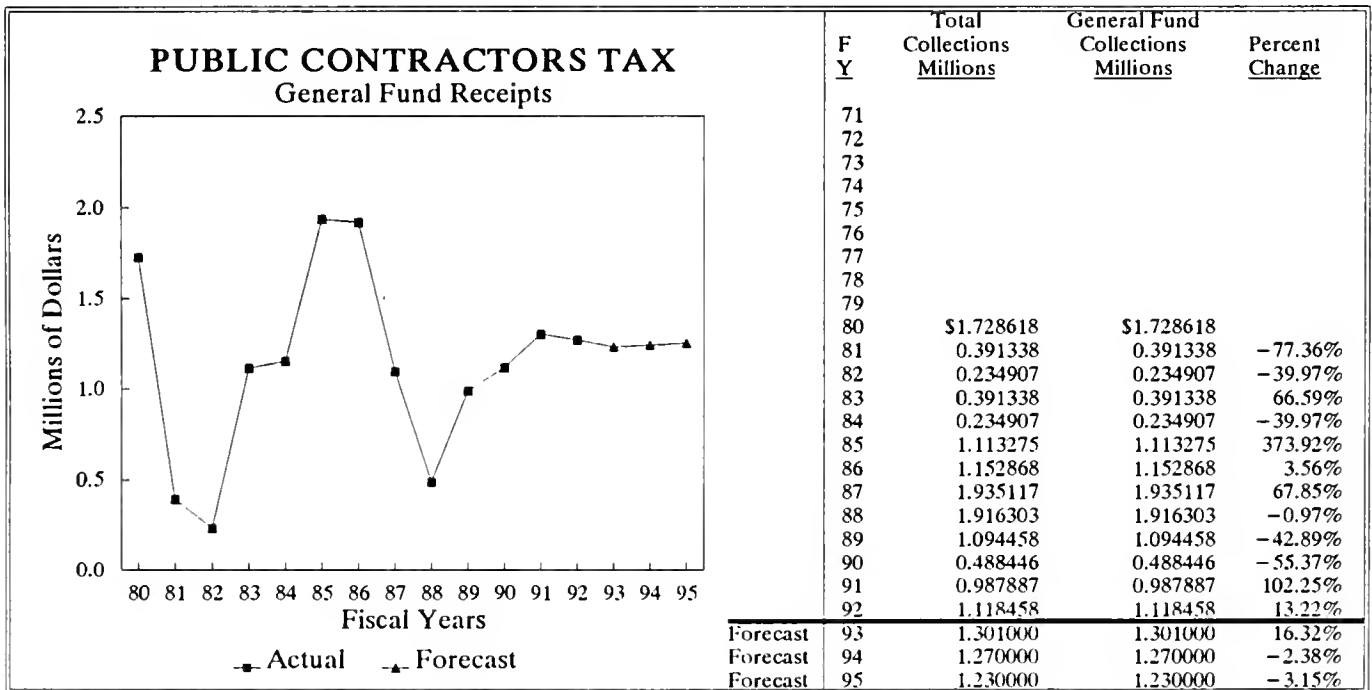
Contractors or subcontractors submitting a proposal to perform construction work in Montana for the federal government, state government, or any political subdivision must be licensed as a public contractor. A license is not required in order to bid on contracts in which federal aid is used for highway construction, but a license is required once the bid is awarded.

The 1 percent license fee is applied to the gross receipts of each separate project let by any of the

listed public entities. However, the license fee paid may be used as a credit on the contractor's corporate, individual, or personal property tax return.

Fiscal 1992 revenue collections are higher due to the executive decision to change from a "modified" to "full" accrual accounting system. This resulted in a one-time increase in revenue of \$0.09 million in fiscal 1992.

Collections during the 1995 biennium are anticipated to remain near the fiscal 1992 level after adjustment for accruals.



GENERAL FUND REVENUES BY COMPONENT

Other Revenue Sources

There are a number of other taxes, fees, and fines that have historically generated less than \$2.5 million each to the general fund each year.

The statutes governing these taxes, fees, and fines are frequently changed, making the comparison of tax years difficult. However, if all the revenue sources are treated as a group, general trends can be identified.

Since fiscal 1981, revenues in this category have grown an average of 4.6 percent per year after adjusting for one-time receipts. However, from fiscal 1986, revenues have increased more slowly at an average of 3.9 percent. It is assumed this trend will continue throughout the forecast period.

Included in this category is the anticipated revenue from transfers from the capital land grant account. This component is estimated separately after the 3.9 percent general growth rate is applied.

The revenue collections for fiscal 1987 included proceeds from the sale of the Montana Youth

Treatment Center at Billings and the transfer of funds from the crime victims and junk vehicle accounts.

As part of the "budget balancers" adopted during the January and July 1992 special sessions, the legislature approved a number of one-time transfers of fund balances and revenues that are included in this revenue component during the 1993 biennium.

In addition, the legislature during the July special session imposed a 7 percent surtax for one year on a number of the revenue sources included in this category: accommodations tax, cement and gypsum tax, new car sales tax. The collection from the surtax on these revenue sources will be deposited in the general fund.

Fiscal 1992 collections were also increased by an executive decision to change from a "modified" to a "full" accrual accounting process.

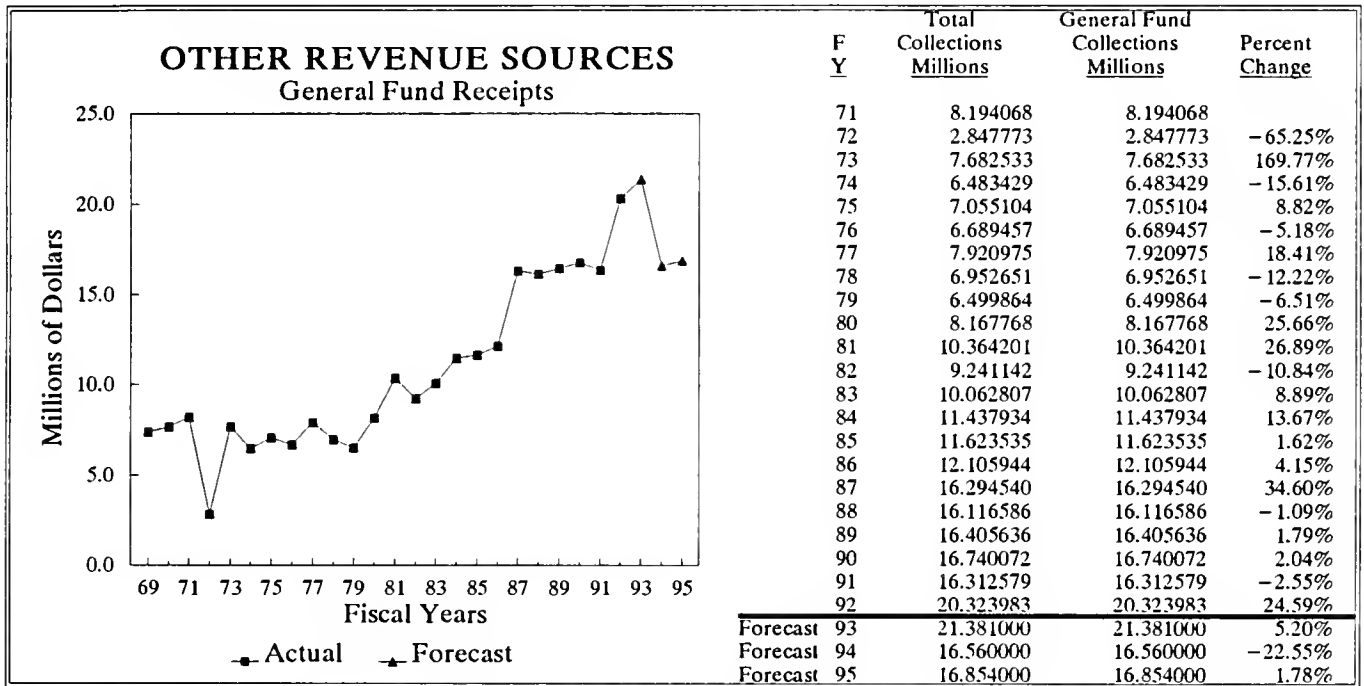
The 1993 Legislature enacted several measures affecting the "other revenue" category. These measures are shown in Table 10.

GENERAL FUND REVENUES BY COMPONENT

Table 10
Bills Affecting "Other Revenue"
(Millions)

Bill Number	Revenue Source	Type of change	Fiscal 1994	Fiscal 1995
House Bill 2	Legal Data Base Fees	Funding Switch	(\$0.224)	(\$0.248)
House Bill 17	Petroleum & LPG License Fees	Increase Fees Funding Switch	(0.085)	\$(0.085)
House Bill 70	Weighing Device Fees	Increase Fees Funding Switch	(0.125)	(0.125)
House Bill 167	Nursery License Fees	Revise fees Funding Switch	(0.035)	(0.041)
House Bill 181	Apiary Registration fees	Double Fees	0.010	0.010
House Bill 193	Produce Fees	Revise Fees Funding Switch	(0.240)	(0.240)
House Bill 222	Fire Protection License Fee	Increase Fees Funding Switch	(0.000)	(0.001)
House Bill 309	Medically Needy Spend-down	Institute Program Excess to GF	1.229	1.229
House Bill 333	Nursing Bed Fee	Increase Fees Funding Switch	(1.600)	(1.600)
House Bill 397	Driving Record Fee/ID Card Fee	Increase Fees	0.471	0.471
House Bill 413	Public Service Commission Fees	Funding Switch	(1.936)	(1.917)
House Bill 419	Hazardous Waste Penalty	Impose Fee	0.032	0.032
House Bill 495	Beer and Wine Catering Endorsements	Impose Fee	0.008	0.008
House Bill 549	Secretary of State Fees	Funding Switch	(1.227)	(1.227)
House Bill 555	Clerk of District Court Fees	Increase Fees	0.003	0.003
House Bill 564	Commodity Warehouseman License Fees	Revise Fees Funding Switch	(0.033)	(0.033)
House Bill 651	Nonresident Trailers	Eliminate Fees	(0.033)	(0.033)
House Bill 689	Income Tax Checkoff	Funding Switch	(0.013)	(0.013)
House Bill 691	Certificate of Need Fees	Funding Switch	(0.040)	(0.040)
Senate Bill 98	Seed Fees	Funding Switch	(0.013)	(0.014)
Senate Bill 185	Excess Weight Permits	Extend Authority	0.021	0.021
Senate Bill 314	Portfolio Registration Fees	Impose Fees Excess to GF	<u>0.045</u>	<u>0.056</u>
Total			(\$3.785)	(\$3.787)

GENERAL FUND REVENUES BY COMPONENT



NON-GENERAL FUND FEES

Fee Increases

The 1993 Legislature enacted new and increased fees that will raise an estimated \$21.3 million during the 1995 biennium. The increased fee revenue, which will be deposited in accounts other than the general fund, will be used to fund agency budgets.

The \$21.3 million of increased fee revenue is in addition to tax increases enacted by the 1993 Legislature to provide additional revenue for the general fund, school equalization account, highways account, and workers' compensation old fund. These tax increases are discussed in the "1995 Biennium Budget Overview" and "General Fund Revenues Component" sections.

The fee increases shown in Table 1 do not include increased workers' compensation premium revenue collected due to rate increases the State Fund may impose during the biennium.

Table 1 shows the legislation that imposed new or increased fees and the anticipated revenue from each. The 1995 biennium estimate of the increased fee revenue due to the legislative change is based upon the most recent fiscal note for the bill, updated (if necessary) for subsequent changes in the bill. Agencies were unable to estimate the increased revenue that may result from some of the bills.

As the table shows, over 40 bills imposed new or increased existing license or permit fees. Another 18 bills increased charges for services provided by state agencies and the university system. The increased tuition revenue shown in the table reflects spending authority provided in House Bill 2, since the Board of Regents, not the legislature, establishes tuition rates. In May 1993, the Regents adopted fiscal 1994 tuition rates near the legislative appropriations.

Nine bills changed rates for sale of documents; state rentals, leases, and royalties; and contributions and premiums.

NON-GENERAL FUND FEES

Table 1
Anticipated Revenue From New or Changed Fees
1995 Biennium

Bill	Fee	New**	Chg.	Fiscal 1994 Change*	Fiscal 1995 Change*	Biennial Change
Licenses and Permits						
HB572	Overweight vehicle permits		X	\$1,122,103	\$2,244,207	\$3,366,310
HB388	Water quality permit fees	X		769,892	777,388	1,547,280
HB318	Air quality operating permit	X		518,236	745,602	1,263,838
SB424	DSL recreational use permits		X	126,660	577,200	703,860
SB430	Accreditation fee for insurers	X		280,000	280,000	560,000
HB70	Weighing devices		X	185,406	185,406	370,812
HB592	Hazardous waste management permit fee	X		253,740	43,740	297,480
HB17	Petroleum & liquified petroleum dealer licenses		X	123,152	123,152	246,304
SB314	Investment company subdivision registration fee	X		120,000	120,000	240,000
SB334	Pesticide waste, container, and recycling fees	X		118,000	118,000	236,000
SB334	Pesticide dealer, applicator, and farm applicator licenses		X	102,445	115,045	217,490
SB354	State Auditor's insurance licensing and education fee		X	30,000	186,300	216,300
SB355	Motorboat certification (fee made permanent)	X		102,760	102,760	205,520
HB222	Fire protection equipment license	X		94,500	94,500	189,000
SB146	Additional corporation dissolutions & LLC license fee	X		127,500	51,000	178,500
HB82	Outfitters license		X	75,500	75,500	151,000
HB288	Idle oil and gas well fee	X		70,000	70,000	140,000
HB567	Air quality permits for com. medical & haz. waste incinerators		X	61,620	57,170	118,790
HB564	Agricultural commodity dealer/public warehouseman license fees		X	45,510	45,510	91,020
HB281	Snowmobile decal fee		X	45,000	45,000	90,000
HB167	Horticultural nursey license and inspection fees		X	37,020	38,209	75,229
HB241	Clinical laboratory science practioner license	X		41,500	29,950	71,450
SB185	Temporary excess weight permit	X		34,334	34,334	68,668
SB110	Temporary operating vehicle licenses and permits		X	30,000	30,000	60,000
HB411	Gaming distributor and route operator license	X		26,700	26,700	53,400
HB64	Out-of-state solid waste management fee	X		25,000	25,000	50,000
SB111	Property manager license	X		20,000	7,400	27,400
SB284	Licensing for installation & management of UST systems	X		11,500	10,500	22,000
HB181	Apiary registration fees		X	9,740	9,740	19,480
SB218	Out-of-state mail service pharmacies license	X		7,500	7,500	15,000
HB338	Game farm license fees		X	4,950	5,550	10,500
HB530	Additional truck-trailer permits	X		5,000	5,000	10,000
HB337	Nonresident temporary off-highway vehicle use permit	X		3,000	3,000	6,000
SB45	Crematory license fees	X		2,000	2,000	4,000
HB237	Qualifications for reduced swimming pool license		X	Unknown	Unknown	0
HB211	Residential & inpatient hospice facilities licenses	X		Unknown	Unknown	0
HB380	Air quality permits		X	Unknown	Unknown	0
SB319	Fee exemption for waste transfer stations	X		Unknown	Unknown	0
SB118	Personal care facilities license	X		Unknown	Unknown	0
HB180	Gross vehicle weight fees	X		Unknown	Unknown	0
HB448	Sewage lagoon near water well permit	X		Unknown	Unknown	0
HB92	Various FWP, DHES, and Dept. of Revenue licenses & permits		X	Unknown	Unknown	0
HB193	Horticultural and farm produce dealer license		X	(4,945)	(4,945)	(9,890)
HB269	Gambling machine permits, transfer fee	X		(7,700)	(7,700)	(15,400)
HB366	Rodenticide surcharge repealed		X	(18,099)	(18,099)	(36,198)
SB196	Exemption from UST registration fee and permit	X		(96,750)	(96,750)	(193,500)
HB651	Vehicle licenses and permits		X	(2,772,751)	(3,746,961)	(6,519,712)
	License & Permits Subtotal			1,730,023	2,417,908	4,147,931

NON-GENERAL FUND FEES

Table 1, continued
Anticipated Revenue From New or Changed Fees
1995 Biennium

Bill	Fee	New**	Chg.	Fiscal 1994 Change*	Fiscal 1995 Change*	Biennial Change
Charges For Services						
HB2	University Tuition		X	3,020,787	3,020,786	6,041,573
SB228	Additional payees of the petroleum tank fee	X		1,925,000	2,100,000	4,025,000
HB333	Nursing home utilization fee		X	0	1,872,242	1,872,242
HB198	University tuition to fund pay increases		X	293,708	865,268	1,158,976
HB673	Probationers and parolees supervisory fee	X		444,000	444,000	888,000
HB516	Class I milk produced and sold	X		370,235	370,235	740,470
HB2	DSL environmental analysis fees		X	125,019	128,709	253,728
HB2	Dept. of Commerce bank examination assessments		X	0	250,000	250,000
HB193	Horticultural and farm produce assessments		X	84,294	84,027	168,321
HB2	DSL fire protection assessments		X	50,508	64,019	114,527
HB658	Wheat and barley assessments	X		50,000	40,000	90,000
SB217	Overhead fees from obligors	X		31,515	23,961	55,476
SB46	Secretary of State fees (additional payees)	X		13,155	13,155	26,310
HB2	Dept. of Justice criminal justice information system fee		X	6,000	18,000	24,000
SB310	Late water rights filing fees	X		3,500	3,500	7,000
HB454	Megalandfill filing fee		X	0	0	0
SB72	Weather control EIS and administration fees		X	Unknown	Unknown	0
HB548	Retail tobacco sales license	X		Unknown	Unknown	0
HB163	Mint oil assessment reductions		X	(6,000)	(7,200)	(13,200)
HB67	Child custody investigations fee		X	(15,000)	(15,000)	(30,000)
SB30	Wheat and barley assessments	X		(24,780)	(24,780)	(49,560)
HB314	State parks resident fee exemptions		X	(27,700)	(27,700)	(55,400)
	Charges for Services Subtotal			6,344,241	9,223,222	15,567,463
Sale of Documents						
HB646	Montana Codes Annotated fee		X	50,000	0	50,000
	Sale of Documents Subtotal			50,000	0	50,000
Rentals, Leases, and Royalties						
SB424	DSL grazing rentals		X	276,178	627,135	903,313
SB424	Cabinsite rentals		X	41,641	83,280	124,921
HB2	DNRC grazing district fees		X	5,912	5,912	11,824
	Rentals, Leases, Royalties Subtotal			323,731	716,327	1,040,058
Contributions and Premiums						
HB430	Retirement fund insurance premium		X	165,160	170,445	335,605
HB650	Sheriffs Retirement System employee contributions		X	148,255	148,255	296,510
HB601	Teachers' Retirement System contributions		X	52,531	55,682	108,213
HB431	Municipal Police Officers' Retirement System contributions		X	31,576	32,586	64,162
HB650	PERS employee contributions		X	(135,420)	(135,420)	(270,840)
	Contributions & Premiums Subtotal			262,102	271,548	533,650
	TOTAL			\$8,710,097	\$12,629,005	\$21,339,102

* From most recent status of fiscal note. Estimates do not include increased fines or penalties.

** Includes changes in those subject to the fee even though the fee itself may not be new.

HOUSE RESOLUTION 2

Development of Targets

Early in the January 1993 legislative session, a House Select Committee on Budget/Revenue reviewed the projected deficits in the general fund and school equalization account (SEA) and recommended that combined expenditures from the two accounts not exceed \$1,837.9 million during the 1995 biennium, which represented actual fiscal 1992 expenditures and anticipated expenditures for fiscal 1993. The committee determined that maintaining expenditures in the upcoming biennium at the 1993 biennium level would reduce the projected deficit by \$99.3 million. It then recommended that an additional \$99.0 million in tax increases be enacted, resulting in a \$29.4 million fund balance in the two accounts (negative \$17.3 million cash balance).

These recommendations were embodied in House Resolution 2, which was approved by the House. The resolution directed:

- 1) the Appropriations Committee to submit to the House a budget for the general fund and SEA that did not exceed the spending target; and
- 2) the Taxation Committee to submit a package to fund the \$99.0 million revenue target.

The resolution established several guidelines to be considered in meeting these "targets":

- 1) specific programs, not "across-the-board cuts" be used to achieve budget reductions;
- 2) state costs not be shifted to local governments or local property taxpayers;
- 3) one-time revenue not be used for any purpose other than creating an ending fund balance;
- 4) expenditures currently budgeted in the general fund not be funded with increased fee revenue; and
- 5) temporary solutions to the "the state's chronic fiscal woes" not be used.

Based on the recommended spending target, the chairs and vice-chairs of the joint appropriations committees assigned "targets" to each appropriation subcommittee. While the 1993 biennium base (actual fiscal 1992 expenditures and fiscal 1993 appropriations) was the starting point for subcommittee targets, the group made several reallocations, as shown in Table 1. Using \$25.3 million of unallocated funds ("one-time" expenditures that occurred in the 1993 biennium but would not continue into the 1995 biennium) and \$19.6 million of additional reductions in the Education subcommittee, the chairs and vice-chairs provided \$7.0 million of additional funding for the Institutions subcommittee and \$35.9 million for the Humans Services subcommittee.

HOUSE RESOLUTION 2

Table 1
Development of HR2 Expenditure Targets
for 1995 Biennium (Millions)

	1993 Biennium Base	Initial Target 1/20	Revised Target 2/1
State Agencies by Subcommittee			
General Government & Transportation	\$109.347	\$109.347	\$109.142
Human Services	283.158	319.049	314.011
Natural Resources & Commerce	39.624	39.624	39.556
Institutions & Cultural Education	156.040	163.084	161.664
Education	342.329	322.667	322.259
FY93 Supplementals	0.000	0.000	7.139
Unallocated/Revisions	25.268	1.995	1.995
Total State Agencies	955.766	955.766	955.766
K-12	802.323	802.323	802.323
Miscellaneous/Statutory Appropriations			
Personal Property Reimbursement	39.846	39.846	39.846
Debt Service - Long Range	25.728	25.728	25.728
TRANS Interest	6.464	6.464	6.464
Retirement	7.814	7.814	7.814
Total Miscellaneous/Statutory	79.852	79.852	79.852
Total	\$1,837.941	\$1,837.941	\$1,837.941

The House Resolution 2 targets were revised in February to reflect the \$7.1 million in increased supplementals (above the Executive Budget) sought by agencies. Table 1 shows the original and revised targets for each subcommittee.

Expenditures in Relation to HR2 Targets

Table 2 shows that final legislative action on expenditures was only \$6.3 million or 0.3 percent higher

than the target. While appropriations for state agencies were \$18.2 million less than the target, the legislature approved K-12 spending at \$9.7 million above the target and statutory/miscellaneous appropriations at \$14.8 million higher than the target.

Due to the increased supplementals requested by state agencies and approved by the legislature, actual 1993 biennium expenditures will be \$1,845.4 million, or \$7.5 million higher than anticipated when House Resolution 2 was adopted. Thus, the 1995 biennium general fund and SEA appropriations as approved by the 1993 legislature (\$1,844.2 million) are slightly lower than 1993 biennium expenditures.

HOUSE RESOLUTION 2

<p style="text-align: center;">Table 2 Legislative Action Compared to HR 2 Targets General Fund and SEA Expenditures, 1995 Biennium (Millions)</p>			
	Revised Target	Legislative Action	Difference
House Bill 2			
General Govt. and Transportation	\$109.142	\$105.216	(\$3.926)
Human Services	314.011	323.522	9.511
Natural Resources	39.556	28.936	(10.620)
Institutions	161.664	158.633	(3.031)
Education	322.259	322.955	0.696
Fiscal 1993 Supplementals	7.139	0.000	(7.139)
Unallocated	1.995	0.000	(1.995)
Reversions	<u>0.000</u>	<u>(1.750)</u>	<u>(1.750)</u>
Total House Bill 2	\$955.766	\$937.512	(\$18.254)
School Equalization Account	\$802.323	\$812.024	\$9.701
Statutory Appropriations			
Personal Property Reimb	\$39.846	\$36.672	(\$3.174)
Debt Service - Long Range	25.728	20.035	(5.693)
TRANS Interest	6.464	4.073	(2.391)
Retirement	7.814	7.814	0.000
Other	<u>0.000</u>	<u>8.414</u>	<u>8.414</u>
Total Statutory Appropriations	79.852	77.008	(2.844)
Feed Bill	0.000	5.000	5.000
Other Appropriations	0.000	12.672	12.672
Total	<u>\$1,837.941</u>	<u>\$1,844.216</u>	<u>\$6.275</u>

Revenues in Relation to HR2 Targets

The revenue measures adopted by the legislature exceeded the House Resolution 2 target, as Table 3 shows. The legislature approved \$70.2 million in net general fund and SEA revenue increases. Based on more recent information and tax collections through March, the legislature's final revenue estimates were

\$31.5 million (or approximately 2.0 percent) higher than preliminary estimates at the beginning of the session. Finally, two bills enacted by the legislature will add to the fund balance through residual equity transfers during the biennium: \$3.3 million of Coal Board revenues will be transferred to the SEA and \$0.3 million from the Secretary of State's proprietary fund will be transferred to the general fund. Residual equity

HOUSE RESOLUTION 2

transfers that occurred in fiscal 1993 added \$2.6 million.

Table 3 Legislative Action Compared to HR2 Targets General Fund and SEA Revenues, 1995 Biennium (Millions)		
<u>Revenue Measures</u>	<u>Target</u>	<u>Legislative Action</u>
Revenue Estimate Revisions		\$31.554
Net Revenue Increases		70.163
Residual Equity Transfers (FY94)		3.644
Residual Equity Transfers (FY93)	—	<u>2.552</u>
Total	\$99.0	\$107.913

BUDGET BASICS

LFA Current Level

Section 17-7-102, MCA, defines "current funding level" for state agencies as "that level of funding required to maintain operations and services at the level authorized by the previous legislature after adjustment for inflation." "Modified funding level" reflects "workload increases, the provision of new services, or changes in authorized funding."

In sections A through F of this Appropriations Report, 1995 Biennium, agency narratives compare appropriations approved by the 1993 Legislature with the LFA current level for each agency. Budget

modification tables and summaries show the modified funding level budgets approved by the legislature.

Table 1 provides a summary of the 1993 biennium base (fiscal 1992 actual expenditures and fiscal 1993 appropriations) compared with the 1995 biennium LFA current budgets for the general fund and school equalization account (SEA). As the table shows, the LFA current level was \$91.9 million or 5.0 percent higher than the 1993 biennium base. The key factors causing growth in expenditures were human service benefits, increasing K-12 enrollment, and annualization of the 1993 biennium pay plan increase.

Table 1
Comparison of 1993 Biennium Expenditures to
1995 Biennium LFA Current Level
General Fund and SEA
(Millions)

Expenditure Area	1993 Biennium FY92 Actual/FY93 Approp.	1995 Biennium LFA Current Level	Differences	
			\$	%
State Agencies	\$969.215	\$1,026.459	\$57.244	5.9
Legislative Feed Bill	5.551	5.000	(0.551)	(9.9)
Statutory Appropriations				
Public Schools (K-12)	802.335	839.723	37.388	4.6
Property Tax Reimbursement	38.431	39.846	1.415	3.7
Debt Service	24.314	25.728	1.414	5.8
TRANS Interest	6.469	Unknown	(6.469)	NA
Retirement	<u>6.703</u>	<u>7.814</u>	<u>1.111</u>	<u>16.6</u>
Subtotal	878.252	913.111	34.859	4.0
Reversions	(7.619)	(7.305)	0.314	(4.1)
Totals	<u>\$1,845.399</u>	<u>\$1,937.265</u>	<u>\$91.866</u>	<u>5.0</u>

The Budget Analysis, 1995 Biennium provides a detailed discussion of how the LFA current level was constructed for each agency and state program.

The LFA current level budgets for agencies are not recommendations. They are intended to provide a

"benchmark" for the legislature as it considers the Executive Budget, hears agency and public testimony, and establishes appropriations. The LFA current level funds FTE, operations, and services for each agency at the level authorized by the last legislature, after adjustments for inflation and entitlement programs.

BUDGET BASICS

During the January 1993 session, legislators used the LFA current level as the basis of its budget work. The projected 1995 biennium deficits in the general fund and school equalization aid account (SEA) the legislature faced when it began the session were based on the LFA current level expenditures and Revenue Oversight Committee revenue estimates. House Resolution 2 spending targets adopted early in the session were based on the projected deficit and calculated in terms of reductions from the LFA current level. Progress toward balancing the general fund and SEA budgets was measured against the projected deficit and LFA current level budgets for agencies. Narratives accompanying the general appropriations bill throughout the legislative process recorded changes from the LFA current level. This format has been maintained in the Appropriations Report, 1995 Biennium.

Personal Services

Personal services costs comprise almost 50 percent of total agency expenditures (excluding capital outlay, grants and benefits, and transfers). The LFA current level is based on a "snapshot" of actual salaries for authorized FTE as they existed on June 26, 1992, plus benefits. The LFA then adjusted this "snapshot" for all upgrades and downgrades to positions through September 30, 1992. The scheduled increase in employee contributions to the Public Employees' Retirement System (PERS) from 6.55 percent in fiscal 1993 to 6.70 percent in fiscal 1994 and fiscal 1995 was included in the personal services calculations, as were other anticipated benefit increases.

Workers' Compensation and Unemployment Insurance rates vary by agency, based on agency experience factors. Fiscal 1993 rates were adjusted to reflect fiscal 1994 and fiscal 1995 levels based on advice provided by representatives of the State Mutual Insurance Compensation Fund and the Department of Labor and Industry. The State Fund subsequently increased rates 5 percent for fiscal 1993 and indicated its intention to adopt additional increases for fiscal 1994 and fiscal 1995. The January 1993 Legislature did not provide funding in agency budgets for these increases.

Vacancy Savings

Vacancy savings is defined as the difference between the full cost and the actual cost of authorized positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures that are lower than the amounts appropriated.

The 1989 Legislature did not apply a vacancy savings factor for the 1991 biennium budgets. Instead, it included language in the general appropriations act prohibiting agencies from expending funds appropriated for personal services in any other category (with certain limited exceptions). During the 1991 regular session, the legislature applied vacancy savings rates for agencies ranging from 0 percent (for agencies with 20 or fewer FTE and university and vocational-technical center faculty) to 4 percent. In the January and July 1992 special sessions, it reduced some agencies' vacancy savings and increased vacancy savings for other agencies. In addition, it imposed general budget reductions, which many agencies met by holding positions vacant.

The 1993 Legislature imposed a 5 percent vacancy savings rate on all personal services in agency budgets except:

- 1) federally funded personal services;
- 2) the Judiciary, in which elected officials were exempted and a 2 percent vacancy savings factor was applied to the remaining personal services;
- 3) the salaries of four of the Public Service Commissioners. At the request of the Commission, the salary of the chairman was included in the vacancy savings calculation.
- 4) some legislative agencies;
- 5) county attorney salaries in the Department of Justice;
- 6) direct care workers at the Department of Corrections and Human Services and the Montana School for the Deaf and Blind; and
- 7) employees of the Montana University

BUDGET BASICS

System. However, the 5 percent personal services reduction was imposed on the Office of the Commissioner of Higher Education.

This vacancy savings factor decreased agency budgets by \$10.1 million general fund and \$13.7 million other funds, as Table 2 shows. House Bill 2 also contains contingency funds of \$1.0 million general fund and \$2.7 million other funds to be allocated to agencies that do not experience sufficient personal services savings to

absorb the vacancy savings. These amounts were calculated based on 10 percent of the general fund and 20 percent of the other funds personal services reduction. The contingency funds are allocated to the Department of Administration for executive branch agencies and to the approving authorities for the Office of the Legislative Auditor, the Judiciary, and the Commissioner of Higher Education. Language in House Bill 2 specifies the procedure to be used in applying for these funds and a reporting requirement.

Table 2
Vacancy Savings and Contingencies
1995 Biennium

	General Fund		Other Funds	
	Reduction	Contingency	Reduction	Contingency
Legislative Auditor	(\$106,179)	\$10,618	\$0	\$0
Judiciary	(47,252)	4,724	(16,234)	3,246
Commissioner of Higher Education	(85,850)	8,585	(11,660)	2,332
Executive Branch (Administration)	(9,821,308)	982,131	(13,721,934)	2,748,300
Total	(\$10,060,589)	\$1,006,058	(\$13,749,828)	\$2,753,878

Budget Balancing Reductions

The legislature also imposed budget balancing reductions of 0.5 percent of the total general fund budgets for most agencies, resulting in a savings of \$1.9 million for the biennium. The following agencies and programs were excluded from this reduction:

- 1) Family Assistance and Medical Assistance programs in the Department of Social and Rehabilitation Services;
- 2) Department of Corrections and Human Services;
- 3) District Court reimbursement program in the Judiciary (which is statutorily appropriated beginning in the 1995 biennium); and
- 4) the Montana University System, with the exception of the Office of the Commissioner of Higher Education.

Language in House Bill 2 allows agencies to allocate the budget balancing reduction among programs, subject to

the approval of the approving authority, as defined in section 17-7-102, MCA.

Fixed Costs

Agencies are charged fees (called fixed costs) for a variety of services purchased from other state agencies. These fees include DofA insurance and bonds, State Auditor warrant writing fees, DofA payroll service fees, Legislative Auditor audit costs, DofA network fees, messenger services, DofA rent, and capitol complex grounds maintenance. Prior to the legislative session, the executive proposed rates for each of these services, which were included in the LFA current level. The 1993 Legislature accepted the executive recommendation for fixed costs with one exception: it reduced total fees for grounds maintenance and continued the existing allocation method, which charged the fees only to agencies in the capitol complex.

BUDGET BASICS

Inflation Factors

Neither the Executive Budget nor the LFA current level included a general inflation factor for all operating expenses. Instead, both applied inflation (or deflation) factors to specific expenditure items. OBPP and LFA

staff agreed on inflation/deflation factors for all expenditure items, which were included in the LFA current level. The legislature subsequently approved these factors as it adopted agency budgets. Table 3 shows the inflation/deflation factors used in the 1995 biennium budgets.

BUDGET BASICS

Table 3
Inflation/Deflation Factors in 1995 Biennium Budgets

<u>Expenditure Item Category</u>	<u>Expenditure Code</u>	<u>FY 1992 to FY 1994</u>	<u>FY 92 to FY 1995</u>
Food	2117,2145,2205,2251,2252, 2253,2254,2264,2275,2277, 2278,2279,2288,2289,2291, 2292	1.0540	1.0880
Energy, Gasoline & Oil	2216,2242,2294,2297,2602, 2604,2607,2716,2724,2725, 2726,2730,2731	1.0430	1.0910
Medical Care & Supplies	2106,2109,2116,2118,2119, 2170,2208,2209,2222,2265	1.1150	1.1820
Misc Government Purchases	Various	1.0330	1.0650
Dept of Administration - ISD			
Computer Processing	2172	0.7000	0.6200
Information Central Services - Training	2177	1.1400	1.2100
Operational Support	2183	1.1500	1.1500
Telephone Equipment	2370	0.7900	0.7400
Telephone/Add/Move/Change	2372	1.0900	1.1400
Telephone Equipment Maintenance	2373	1.1000	1.1500
Local Voice Circuits	2376	1.0700	1.0900
Voice Circuit/Add/Move/Change	2378	1.0600	1.0800
Long Distance Charge	2385	0.9000	0.8600
Dept of Administration - Central Stores			
Coarse Paper	2211	1.0739	1.0542
Fine Paper	2226	1.0564	1.0455
Forms	2219	0.9943	0.9653
Office Supplies	2236	1.0813	1.0399
Janitorial	2256	0.9995	0.9856
Computer Paper	2296	1.0726	1.0708
Software	3403	1.2469	1.2469
Dept of Admin-Publication and Graphics			
Photocopy Pool Services	2193	1.0000	1.2000
Printing P & G	2190	1.1200	1.1300
Travel			
In-State Motor Pool	2404,2415	0.9057	0.9070
Other In-State/Out of State	2401,2411,2414	1.0330	1.0650
Postage & Mailing	2304	1.0360	1.0340
Non-Department of Administration Items			
Printing / Other Provider	2191	1.1500	1.1900
Printing	2214	1.1200	1.1300
Telephone Equipment Charge	2371	1.0400	1.0600
Long Distance Charge	2386	1.0200	1.0400
Electricity - MPC	2601	1.0765	1.1365
Electricity - MDU	2601	1.1007	1.1305
Natural Gas - MPC	2603	1.1460	1.1610
Natural Gas - MDU	2603	1.0401	1.0257
Water & Sewage	2605	0.9300	0.9300

STATUTORY APPROPRIATIONS

Fiscal 1992 Expenditures

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law, rather than through appropriation bills, which are effective for only one biennium. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation and the statute must be listed in section 17-7-502, MCA. Currently, there are 80 valid statutory appropriations listed in that section. Examples of statutory appropriations include personal property reimbursements made to local governments and schools and motor fuel tax revenues distributed to counties.

In Senate Bill 378, the 1993 Legislature directed the Legislative Finance Committee to review all statutory appropriations to determine if the appropriation should be made by a legislative appropriation. The committee is to report its finding to the 1995 Legislature. This action is discussed in the "Language" section of the agency narrative.

Table 1 shows fiscal 1992 expenditures from all statutory appropriations by fund type. Total expenditures of \$682.9 million include: 1) \$36.9 million general fund; 2) \$511.9 million state special funds; 3) \$9.9 million federal funds; 4) \$122.9 million proprietary funds; 5) \$0.2 million unrestricted funds in the university system; and 6) \$1.1 million other funds.

Agency Code	Agency	Fund/ Account	Statute M.C.A.	Expended	Purpose
General Fund					
5801	Revenue	01100	15-1-111	\$19,092,097	Local assistance for property tax reductions
6101	Administration	01100	17-05-805	11,779,947	Tax anticipation notes & bond costs
6101	Administration	01100	19-15-101	3,193,820	SB226 retirement adjustment
6101	Administration	01100	17-05-805	2,539,642	Tax anticipation notes & bond costs
6701	Military Affairs	01100	10-3-312	187,041	Disaster relief - July 1991 Teton County floods
6701	Military Affairs	01100	10-3-312	91,902	Disaster relief - October 1992 fires
6101	Administration	01100	17-05-804	<u>4,645</u>	Tax anticipation notes & bond costs
Total General Fund				<u>36,889,093</u>	
State Special Revenue					
3501	O.P.I.	02043	20-9-361	361,964,755	School equalization payments
5801	Revenue	02168	15-36-112	30,453,034	Local government severance taxes - oil
5706	D.N.R.C	02222	85-1-220	21,735,112	CST bond issuance & debt service: Broadwater Dam refinancing
4110	Justice	02120	23-5-631	19,796,119	Distribution of video game tax
6103	Workers' Comp	02471	39-71-2504	12,253,748	Workers' compensation bond payments
5401	Transportation	02422	17-7-502	12,012,891	Revenue and building debt bond service
5401	Transportation	02422	15-70-101	7,623,000	* City distribution of gas tax
5801	Revenue	02167	15-36-112	6,689,765	Local government severance taxes - gas
3401	Auditor	02401	17-3-212	6,516,295	Forest reserve fund to counties
5401	Transportation	02422	15-70-101	6,323,000	County distribution of gas tax
5801	Revenue	02046	15-31-702	5,137,646	Corporate tax proceeds from financial institutions
5301	Health	02058	75-11-313	2,268,569	* Petroleum storage tank release cleanup
6103	Workers' Comp	02468	39-71-2504	2,090,410	Payroll tax transfer
5801	Revenue	02232	15-23-706	1,833,440	Coal gross proceeds tax distribution
5801	Revenue	02083	15-37-117	1,565,392	Metal mines tax proceeds to counties
6101	Administration	02105	10-4-301	1,477,687	County 911 emergency phone program
5801	Revenue	02442	16-1-404	1,442,415	Local assistance - liquor
6501	Commerce	02116	15-65-121	1,434,964	Accommodations tax expenditures
6401	D.C.H.S.	02034	16-1-404	1,330,000	* Earmarked alcohol tax to counties
4110	Justice	02074	23-5-612	1,303,400	Distribution of gaming machine permits
5801	Revenue	02442	16-1-410	1,111,976	Local assistance - beer
3401	Auditor	02802	19-11-513	1,011,825	Fireman/police retirement fund
6101	Administration	02098	2-17-105	656,775	State building insurance proceeds
4110	Justice	02014	19-6-709	617,375	Highway patrol retirement
2110	Judiciary	02221	19-5-404	532,488	Judges retirement payments
5201	F.W.P.	02409	17-5-424	460,668	State special portion of 1989 series bond payments.
6501	Commerce	02409	90-6-331	327,622	Hard rock mining transfer
6101	Administration	02062	17-05-404	286,251	Transfer to airport debt service
5201	F.W.P.	02416	19-8-504	270,844	Fish, Wildlife and Parks warden's retirement
6101	Administration	02062	17-05-404	207,307	Transfer to airport debt service

STATUTORY APPROPRIATIONS

Table 1, continued
Statutory Appropriations
Fiscal 1992

Agency Code	Agency	Fund/ Account	Statute M.C.A.	Expended	Purpose
5401	Transportation	02827	67-3-205	202,663	Allocation of aircraft registration fees
5102	Comm. of Higher Ed.	02111	15-65-121	173,311	Transfers to UM of accommodations tax for travel research
5801	Revenue	02442	16-1-411	136,540	Local assistance - wine
6501	Commerce	02210	17-6-409	112,055	Microbusiness finance program administration
6101	Administration	02105	10-4-301	85,576	County 911 emergency phone program
6201	Agriculture	02132	90-9-306	56,505	Ag. Devel. Council grant for agricultural development.
4110	Justice	02074	23-5-306	54,850	Distribution card table fees
5117	Historical Society	02123	15-65-121	51,708	Accommodations tax for sites and signs
5401	Transportation	02422	15-70-101	49,500	Local technical assistance
4107	Crime Control	02197	23-7-402	48,646	* Lottery proceeds to counties for youth detention facilities
4110	Justice	02120	23-5-306	48,116	Distribution of live game tax
5201	F.W.P.	02409	17-5-424	43,575	State special portion of 1983 series B bond payments
6201	Agriculture	02132	90-9-306	41,502	Ag. Devel. Council - agricultural development & diversification
4110	Justice	02143	44-12-206	27,270	State forfeitures
4107	Crime Control	02197	23-7-402	25,385	Lottery proceeds to counties for youth detention facilities
5708	D.N.R.C	02010	82-11-161	12,631	Oil & gas damage mitigation
2110	Chiropractic Panel, Judic.	02182	27-12-206	8,792	Chiropractic legal panel
5801	Revenue	02807	13-37-304	5,036	Campaign funds from income tax check-off
6501	Commerce	02227	90-3-301	2,943	US West grant to Mt. Science & Technology Alliance
5101	Board of Education	02219	20-5-409	1,314	Special research
6501	Commerce	02082	37-51-501	611	Real estate recovery account claim payment or transfer
6101	Administration	02062	17-05-404	499	Transfer to airport debt service
5301	Health	02207	75-5-507	420	Water quality rehab account - remedial action
Total State Special Funds				511,924,219	
Federal Revenue					
3401	Auditor	03821	19-12-301	9,108,843	Fireman pension fund, retiring before 7/1/73
5201	F.W.P.	03097	17-5-424	385,025	Federal portion of 1989 series bond payments
6901	S.R.S.	03204	90-4-215	276,274	Low-income energy assistance & home weatherization
4110	Justice	03214	44-13-102	78,828	Federal forfeitures
6701	Military Affairs	03136	10-3-312	31,960	Train Indian tribes in handling of hazardous materials
6501	Commerce	03290	90-3-301	24,932	Mt. Discovery Network to develop action agenda for M.S.T.A.
Total Federal Funds				9,906,861	
Proprietary					
6103	Workers' Comp	06047	39-71-2504	59,220,067	Workers' compensation bond payments
6101	Administration	06017	2-18-812	31,065,434	Self-insurance health claims
6501	Commerce	06045	17-7-502	8,313,513	Debt Service-House Bill 995 (Workers' Comp bond sale)
6501	Commerce	06001	23-7-402	5,775,546	Lotto America prizes
6501	Commerce	06001	23-7-402	5,582,635	Transfers to school equalization account
6501	Commerce	06001	23-7-402	5,094,809	Instant ticket prizes
6101	Administration	06532	2-9-202	2,856,445	Self-insurance health claims
6501	Commerce	06001	23-7-402	2,680,652	Mt. Cash Prizes
6501	Commerce	06001	23-7-301	668,043	Instant ticket commissions
6501	Commerce	06001	23-7-301	648,711	Lotto America commissions
6501	Commerce	06001	23-7-402	450,000	Lottery expenditures
6501	Commerce	06001	23-7-301	292,423	Mt. Cash commissions
6103	Workers' Comp	06039	17-7-502	272,363	Proprietary fund interest expenses
Total Proprietary Funds				122,920,842	
Current Unrestricted					
5103	U of M	31101	15-65-121	159,769	Accommodations tax for travel research (transfers)
5103	U of M	31101	15-65-121	30,952	Accommodations tax for travel research (operations)
Total Current Unrestricted Funds				190,721	
Other					
6101	Administration	05008	17-07-502	826,131	Capitol land grant funds
6107	Long Range Building	05013	17-5-404,804	197,400	Administrative costs of long range building
6107	Long Range Building	05011	17-5-404,804	40,900	Administrative costs of long range building
5102	Comm. of Higher Ed.	08027	20-26-1503	0	Rural physician trust administration.
Total Other Funds				1,064,431	
Grand Total				3682,895,167	

* Legislative changes for the 1995 biennium discussed in following paragraphs

STATUTORY APPROPRIATIONS

Changes in Existing Statutory Appropriations

The 1993 Legislature made certain changes in statutory appropriations for the 1995 biennium. The legislature: 1) increased the biennial distribution of gas tax to cities by an estimated \$5.5 million; 2) eliminated the statutory appropriation for administrative costs of the Petroleum Tank Release Compensation Board and appropriated these funds in House Bill 2; 3) reduced the estimated earmarked alcohol tax distribution to counties to \$1.0 million each year because it appropriated more alcohol tax for state-

run programs in House Bill 2; and 4) eliminated the statutory appropriation of lottery proceeds to counties for administrative costs related to youth detention facilities and appropriated those funds in House Bill 2. The statutory appropriations with legislative changes are marked with an "*" in Table 1.

New Statutory Appropriations

Table 2 shows the \$178.8 million of new statutory appropriations approved by the 1993 Legislature. These appropriations are discussed under "Other Legislation" in the agency narratives.

Table 2 New Statutory Appropriations 1995 Biennium					
Agency Coda	Agency	Fund	Bill Number	Estimated	Purpose
2110 Judiciary	General Fund	HB93	\$1,105,000	Depository bank services	
2110 Judiciary	General Fund	HB278	6,645,000	Motor vehicle fees for District Court criminal reimbursement	
4110 Justice	General Fund	HB278	563,800	* District Court and courts of limited jurisdiction automation	
	General Fund	HB529	100,000	Undistributed drivers' license fees for DUI intoxilizer equipment	
Total General Fund			8,413,800		
5107 Northern Mt. College	State Special	HB006	240,000	** Environmental science-water quality instructional program	
6201 Agriculture	State Special	HB564	132,000	Warehouse operator liquidation funds for administering the act	
5603 Livestock	State Special	HB104	NA	Income from forfeited property for training or enforcement	
1101 Legislative Auditor	State Special	HB373	NA	Expend audit collections in excess of HB2/pay plan appropriations	
Total State Special Funds			372,000		
3110 Governor's Office	Federal	HB660	NA	Mt. Community Services Act - Community job service grants	
5201 F.W.P.	Federal	HB679	NA	Off-highway vehicle safety education program	
6103 State Comp. Ins. Fund	Proprietary	HB013	167,290,187	Operation of the State Fund, including administration & benefits	
6602 Labor	Proprietary	HB287	2,753,000	Uninsured employers fund & subsequest injury fund	
6201 Agriculture	Proprietary	SB085	NA	Hail damage insurance payments	
Total Proprietary Funds			170,043,187		
Grand Total			\$178,828,987		
* One-time appropriation of excess fiscal 1992 funds in court reimbursement program					
**Begins in fiscal 1995					

SUPPLEMENTALS

1993 Biennium Supplementals

Section 17-7-301, MCA, allows the Governor to authorize state agencies to spend money appropriated for the second year of the biennium in the first fiscal year of the biennium, if he finds that "due to an unforeseen and unanticipated emergency, the amount actually appropriated for the first fiscal year...will be insufficient for the operation and maintenance of said department." When such appropriation transfers are approved, agencies often request supplemental appropriations (supplementals) from the next legislature to fund the agency for the remainder of the biennium.

During the 1993 biennium, the legislature approved \$145.3 million in supplementals. This total includes \$50.4 million (\$43.7 million general fund) approved in the January 1992 special session and \$8.9 million general fund approved in the July 1992 special session.

During the 1993 regular session, an additional \$86.0 million (\$29.7 million general fund) was approved for increased expenditures in the 1993 biennium. Table 1 shows the total supplementals--general fund and non-general fund (state special, federal, and proprietary)--approved during the 1993 biennium.

Supplementals approved in the 1993 regular session include \$846,156 general fund appropriated in House Bill 3 for the Secretary of State to fund the special election on Referendum 111 (Senate Bill 235) and \$1,159,200 general fund appropriated in House Bill 77 to the Department of Justice for legal services. House Bill 3 reappropriated for fiscal 1994 any unspent funds authorized by the legislation for: 1) inpatient youth psychiatric services and residential youth psychiatric services to the Department of Family Services; 2) costs of the June 1993 special election to the Secretary of State's Office; and 3) disaster and emergency services to the Department of Military Affairs.

SUPPLEMENTALS

Table 1
1993 Biennium Supplementals

Fund Type/Agency	1/92 Special Session	7/92 Special Session	Regular Session (HB3/HB77)	Total
General Fund				
Governor's Office	\$15,620		\$98,046	\$113,666
Secretary of State			846,156	846,156
State Auditor			337,254	337,254
Justice			1,344,200	1,344,200
Revenue	216,077		929,217	1,145,294
Military Affairs			13,800	13,800
Health & Environmental Sciences			145,962	145,962
Social & Rehabilitation Services	9,599,776		12,021,626	21,621,402
Family Services	2,202,939		7,040,078	9,243,017
State Lands	5,573,650	\$1,000,000	1,370,537	7,944,187
Livestock			105,512	105,512
Historical Society	32,402			32,402
Corrections & Human Services	1,919,403		4,990,258	6,909,661
Board of Public Education			35,164	35,164
School for the Deaf & Blind			39,243	39,243
Office of Public Instruction - Operations			266,126	266,126
SEA Revenue Shortfall	24,130,000	2,520,000		26,650,000
SEA ANB Income		5,350,000		5,350,000
Vocational-Technical System			67,281	67,281
Sub-Total	\$43,689,867	\$8,870,000	\$29,650,460	\$82,210,327
Non-General Fund				
Governor's Office			\$11,180	\$11,180
State Auditor			65,000	65,000
Justice			919,000	919,000
Revenue			47,190	47,190
Administration			450,000	450,000
State Fund			15,000,000	15,000,000
Labor and Industry			700,000	700,000
Social & Rehabilitation Services	6,665,599		39,022,019	45,687,618
Fish, Wildlife and Parks			46,480	46,480
Livestock			105,512	105,512
Natural Resources & Conservation			3,290	3,290
Board of Public Education			5,649	5,649
Sub-Total	\$6,665,599	\$0	\$56,375,320	\$63,040,919
Total	\$50,355,466	\$8,870,000	\$86,025,780	\$145,251,246

SUPPLEMENTALS

Total general fund supplementals for the 1993 biennium are much higher than historical levels. When the supplementals due to school equalization account (SEA) revenue shortfalls (\$26.7 million) are removed¹, general fund supplementals for increased expenditures total \$55.6 million, a 172 percent increase from the 1991 biennium. As Table 2 shows, this is nearly twice the amount of general fund supplementals in previous biennia. General fund supplementals have averaged \$31.5 million over the last four biennia, but have increased substantially during the last three biennia.

Table 2
General Fund Supplementals
For Increased Expenditures

<u>Biennia</u>	<u>Millions</u>
1987	\$32.7
1989	17.1
1991	20.4
1993*	55.6
Average	31.5

*Excludes \$26.7 million SEA supplemental due to revenue shortfall.

Anticipated 1995 Biennium Supplementals

Concerned about the high level of supplementals during recent biennia, the 1993 Legislature took several steps to reduce future supplementals:

1) House Bill 500. The legislature enacted House Bill 500, which requires that supplemental appropriation requests must contain a plan for reducing expenditures in the second year of the biennium that will enable the agency to stay within its biennial appropriation. The bill exempts several types of expenditures from this requirement: 1) fire suppression costs; 2) school equalization and transportation costs; and 3) Department of Justice expenditures related to certain litigation or prisoner costs.

The approving authority for the agency requesting the supplemental is responsible for ensuring implementation of the plan to reduce expenditures in the second year of the biennium. The bill provides that if "mandated" expenditures required by state or federal law will cause an agency to exceed appropriations, the agency must reduce all "non-mandated" expenditures "to the greatest extent possible" in order to avoid overspending.

2) County attorney salaries. Supplementals have been required for this program in recent biennia because counties have exercised statutory options to increase county attorneys from part- to full-time or provide salary increases after the Department of Justice submits the budget request to the legislature. The legislature enacted House Bill 474, which requires that the biennial budget request submitted by the department contain complete information concerning the state's share of county attorney salaries. A county is responsible for 100 percent of any increase in salary if it fails to provide necessary information in time to be included in the state budget process. This requirement will take effect during the 1997 biennium budget development process.

¹This portion of the supplemental did not fund increased expenditures. It ensured sufficient revenue in the SEA to fund the foundation program at the level appropriated by the 1991 Legislature. The remainder of the supplemental to the SEA was used to fund increased expenditures due to growing enrollments in Montana public schools. Due to higher-than-anticipated revenue collections in the SEA, only \$12.1 million of the total \$32.0 million general fund supplemental will be required during the 1993 biennium.

SUPPLEMENTALS

3) Realistic estimates. In order to minimize supplementals during the 1995 biennium, the legislature also requested the executive and agencies to provide as realistic estimates as possible of the costs of benefit and entitlement programs.

However, there are several areas in which supplementals may occur during this biennium:

1) SEA supplemental. The legislature approved a \$124.9 million general fund transfer to the SEA for the 1995 biennium in House Bill 667, the new school equalization bill. The amount of the supplemental was based on final legislative action on tax legislation, revenue estimates, and the new school equalization program. The transfer is significantly larger than in any previous year due to the passage of Senate Bill 378, which eliminates the deposit of personal income tax, corporate income tax, and coal tax interest collections in the SEA, effective in fiscal 1995.

This supplemental may be insufficient for several reasons. First, based on final legislative revenue estimates and tax legislation, it appears that an additional \$1.9 million general fund supplemental will be required in fiscal 1995 to fund estimated SEA costs. Second, state Guaranteed Tax Base (GTB) aid estimates may be too low. The new school equalization program enacted by the 1993 Legislature significantly increased state GTB aid to districts. During the 1993 biennium, GTB aid comprised 11.7 percent of state equalization aid. The Office of the Legislative Auditor (OLA) estimates that it will comprise at least 31.6 percent of state aid during the 1995 biennium. State GTB costs during the 1995 biennium depend on budget increases adopted by districts and how quickly districts with budgets below the statutory minimum move toward the minimum. While districts have five years to complete this transition, they may choose to increase their budgets more rapidly, with a portion of the increased costs funded with GTB in eligible districts. Since over 50 percent of the school districts in the state are currently below the base budget, it is difficult to predict state GTB costs. In estimating the costs of the new program, the OLA assumed that only a portion of the districts would increase their budgets the maximum

amount during the 1995 biennium. If all districts chose this option, state costs would increase by over \$5.0 million during the biennium. Other factors that may affect the GTB cost estimate prepared by the OLA are districts' handling of P.L. 81-874 funds and any base-building increases local districts approve in fiscal 1993.

Finally, technical aspects of House Bill 667 may result in a larger supplemental. The bill requires that any balance in the SEA be transferred to the general fund at the end of each fiscal year, beginning in fiscal 1994. While the SEA is projected to have a balance of approximately \$14 million at the end of fiscal 1994, this balance was included in calculating the \$124.9 million transfer in House Bill 667. If the \$14 million is transferred to the general fund, the supplemental will need to be increased by a like amount. The net effect on the general fund is zero.

2) Medicaid. Medicaid is one of the state's largest general fund expenditures, comprising 10 percent of total fiscal 1992 general fund spending. It is also one of the fastest growing expenditures, increasing by over 15 percent per year. The medicaid estimates contained in the Executive Budget and the LFA current level were prepared in the fall of 1992. Based on updated medicaid claims, in February SRS requested an additional \$7.3 million general fund (\$24.9 million total funds) above the level contained in House Bill 2.

However, in testimony provided to the House Appropriations Committee, the Director of the Office of Budget and Program Planning withdrew this request, stating that he believed that cost containment measures instituted by the department would keep 1995 biennium expenditures within appropriated levels.

To assist SRS in cost containment efforts, the legislature deleted the following language that had been included in the general appropriations act during the last several biennia:

The department may not expand or reduce the scope, amount, or duration of benefits provided to recipients under the medicaid primary care or nursing care programs during the 1995 biennium unless Title XIX of the federal Social

SUPPLEMENTALS

Security Act is amended to require expansion or reduction of benefits as a condition of the state receiving federal financial participation. This provision may not be construed to prohibit the department from implementing coverage provided in 53-6-101(3)(1).

3) **Fire suppression costs.** Historically, the legislature does not appropriate funds to the Department of State Lands to suppress fires. Instead, it approves a supplemental during the next session to reimburse the department for general fund spent during the biennium from other appropriations for fire suppression activities. Usually, the department requests a supplemental based on actual suppression costs, estimated billing from federal agencies, and estimated fire suppression costs for the following spring. Fire suppression supplementals approved by the legislature have varied widely, (as Table 3 shows), making an estimate of 1995 biennium costs difficult.

4) **Extradition and transportation of prisoners.** In recent biennia, this program has required supplementals exceeding 30 percent of appropriations because the cost of extraditing and transporting prisoners exceeded estimates. During the January 1992 special session, the executive proposed plans to contain program costs and recommended a \$50,000 budget reduction, which the legislature approved. These cost savings did not materialize and the program needed a \$150,000 supplemental. The 1993 Legislature reduced the program's budget by \$79,000 per year in anticipation of implementation by the Governor's Office of more restrictive procedures for transporting prisoners. If these cost savings do not occur, the 1995 Legislature may be requested to fund a supplemental.

Table 3
Department of State Lands
Fire Suppression Supplementals
(Millions)

<u>Legislative Session</u>	<u>General Fund</u>
1993	\$1.4
1992*	6.6
1991	3.0
1989	12.6
1987	0.6
1986*	3.2
1985	2.9
1983	0.8

* Special session

SCHOOL EQUALIZATION PROGRAM

House Bill 667

The 1993 Legislature enacted House Bill 667 which made major changes in the school equalization program and the way school districts budget. Effective in fiscal 1994, House Bill 667:

- ◆ Creates basic and per-ANB entitlements for each school district that replace the current foundation schedules. The state provides direct state payments for 40 percent of these entitlements.
- ◆ Establishes minimum and maximum general fund budget ranges for each school district, based upon the district's basic and per-ANB entitlements and its special education allowable costs. A low-spending district has five years to bring its budget to the minimum spending level. A district that is budgeting in excess of the maximum must freeze its budget at the fiscal 1993 level.
- ◆ Allows districts below the maximum budget to increase their budgets, without a vote of district electors, by: 1) up to 4 percent of the previous year's general fund budget; 2) up to 4 percent of the previous year's per-ANB general fund budget multiplied by the current year's ANB; or 3) 20 percent of the amount between the fiscal 1993 budget and the minimum budget.
- ◆ Provides Guaranteed Tax Base (GTB) aid for eligible districts for the difference between the state's share of entitlements and the minimum budget of the district. The number of districts eligible for GTB aid is increased.
- ◆ Provides GTB aid for a portion of debt service costs.
- ◆ Revises accounting for Public Law 81-874 revenues.
- ◆ Revises the special education distribution mechanism.

- ◆ Revises the distribution schedule for direct state aid and GTB.

Entitlements

House Bill 667 creates basic and per-ANB entitlements for each school district. The basic entitlement is \$18,000 for an elementary district and \$200,000 for a high school district. Elementary districts with an accredited 7th-8th grade middle school program are entitled to an increased base amount depending on the number of students in the 7th and 8th grades.

The per-ANB entitlement for elementary districts with 1,000 ANB and below is \$3,500 for the first ANB, reduced by \$0.20 for each additional ANB. The per-ANB entitlement is \$3,300.20 for elementary districts with ANB above 1,000. The per-ANB entitlement for high school districts with 800 ANB and below is \$4,900 for the first ANB, reduced by \$0.50 for each additional ANB. The per-ANB entitlement is \$4,500.50 for high school districts with ANB above 800. Elementary districts with students in an accredited 7th and 8th grade program receive the high school per-ANB entitlement for these students.

The state provides direct aid for 40 percent of these entitlements.

The per-ANB entitlement is based on a new method of counting ANB. Under current law, ANB is defined as attendance during the spring semester of the previous fiscal year plus attendance during the fall semester of the current fiscal year, with an adjustment for pupil-instruction related (PIR) days. For fiscal 1994, ANB will be derived from the October, 1992 enrollment count, with full-time special education students excluded and an adjustment made for PIR days. Beginning in fiscal 1995, ANB is based on the average enrollment in October and February of the previous school year plus an adjustment for PIR days. Students who spend more than one-half day in special education classes will be included in the ANB formula beginning in fiscal 1995.

SCHOOL EQUALIZATION PROGRAM

Minimum and Maximum Budgets

The minimum general fund budget is the sum of 80 percent of the district's basic entitlement, 80 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable cost payment. The maximum general fund budget is the sum of the district's basic entitlement, per-ANB entitlement, and up to 153 percent of special education allowable costs. A school district whose budget exceeds the maximum may not exceed its fiscal 1993 budget in the future. While it can maintain its fiscal 1993 budget in fiscal 1994 and fiscal 1995 without voter approval, the budget must be approved by the voters in subsequent years.

Districts whose fiscal 1993 budgets are below the minimum budget must increase their budgets to the minimum by fiscal 1998. During the phase-in, these districts must increase their budgets each year by at least 20 percent of the difference between the minimum budget and the previous year's budget.

A school with a previous year's budget below the maximum may increase its budget without a vote by up to the greater of: 1) 4 percent per year; 2) 4 percent of the previous year's per ANB general fund budget multiplied by the current year's ANB; or 3) at least 20 percent of the difference between the minimum budget and the previous year's budget. In fiscal 1994, a school may not exceed these growth limits. Beginning in fiscal 1995, school trustees are required to submit budget increases in excess of these limits to the voters.

A school district may not increase its budget above the maximum budget.

District General Fund Budget Revenue Sources

A district funds its general fund budget from the following sources:

State Sources - Each district is eligible to receive direct state aid equal to 40 percent of the maximum budget. In addition, a district may qualify for GTB aid to subsidize local levies to fund its GTB budget area. The GTB budget area is 40 percent of a school's maximum budget.

A district is eligible to receive GTB aid if its GTB ratio is less than the statewide GTB ratio. A district's GTB ratio is the ratio of district taxable value to the sum of direct state aid and 40 percent of a district's special education allowable cost payment. The statewide GTB ratio is 175 percent of statewide taxable value divided by the sum of the total direct state aid and 40 percent of total special education allowable cost payments. Since under current law the statewide measure is multiplied by 121 percent, the new law will expand the number of districts eligible for GTB aid and will increase the average amount of GTB aid per eligible school. Under current law, 207 districts received GTB aid in fiscal 1993. Under HB 667, 359 districts will be eligible for GTB aid in fiscal 1994.

Local Sources - A district must fund the GTB budget area of its budget with reappropriated funds and non-levy revenues before it levies property taxes.

GTB-eligible districts receive GTB aid to fund the difference between the state's share of the entitlement amount and the adopted budget, up to the minimum budget. No GTB aid is available for local levies used to fund the difference between the minimum and maximum general fund budgets.

Federal Sources - Beginning in fiscal 1994, a school district must create an impact aid account, into which identifiable P.L. 81-874 moneys in the general fund balance at fiscal yearend 1993 and all future P.L. 81-874 revenues must be deposited. Transfers from the impact aid fund to the district's general fund are prohibited, although expenditures from the impact aid account may be made for costs that would otherwise be paid from the general fund.

Special Education Allowable Cost Payment

Special education allowable costs and special education pro-rated cooperative costs for fiscal 1994 are calculated in the same manner as under current law. A school district may budget up to 153 percent of its allowable costs plus pro-rated coop costs. The state will provide each school with an allowable cost payment from the state general fund. Eligible school districts will receive

SCHOOL EQUALIZATION PROGRAM

GTB aid for up to 40 percent of its allowable cost payment plus prorated coop costs.

Beginning in fiscal 1995, each school will receive an instructional block grant and a related services block grant based on its special education expenditures per ANB in the previous year. Each school must provide \$1 of local revenue to match every \$3 in block grant funding from the state. The new procedure will contain provisions for recapture of unmatched state special education expenditures and contingency requests.

GTB Reimbursement for Debt Service

House Bill 667 allows school districts to receive a GTB reimbursement to fund a portion of its debt service costs. A district will be eligible for GTB aid if its mill value per ANB is less than 121 percent of the state mill value per ANB. For fiscal 1994 and fiscal 1995, only bonds sold after July 1, 1991 will be eligible for state GTB aid. In later years, all existing bonds will be eligible. In the first year, the district will levy debt service mills as if no reimbursement were available, although in fact the district will receive the reimbursement. In the second and subsequent years, the prior year's GTB reimbursements must be used to reduce debt service levies.

House Bill 667 limits the school facility entitlement to \$220 per elementary ANB, \$270 per ANB in accredited 7th-8th grade programs, and \$330 per high school ANB. The reimbursement to eligible districts will be based on

the lesser of the school facility entitlement or its existing debt service expenditures. The total available reimbursement is \$1 million in fiscal 1994 and \$1 million in fiscal 1995. If districts qualify for more than the reimbursement available, the Office of Public Instruction will pro-rate the distribution of available funds to the eligible districts.

New State Aid Distribution Schedule

Each district will receive 10 percent of its direct state aid and special education payments monthly in August through October, December through April, and June and July. Each district will receive one-half of its GTB payment in November, with the remaining half distributed in May.

State Cost Savings

Table 1 shows historical and projected numbers of ANB for 1988 through 1995. The ANB for fiscal 1988 through fiscal 1993 were calculated using the daily attendance method and for fiscal 1994 and fiscal 1995 using the enrollment method.

Funding the increased ANB during the 1995 biennium at fiscal 1993 schedule amounts would have increased state costs by \$37.1 million. House Bill 667 decreased anticipated state costs by an estimated \$30.0 million during the 1995 biennium by lowering the average amount of state support per ANB. However, total state support for the school equalization program will be approximately \$7.0 million higher in the 1995 biennium than it was in the 1993 biennium.

SCHOOL EQUALIZATION PROGRAM

Table 1
ANB in Montana Schools
FY1988-1995

	<u>Elementary</u>	<u>% Change</u>	<u>High School</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
1988	103,777		46,485		150,262	
1989	104,386	0.59	44,932	(3.34)	149,318	(0.63)
1990	105,763	1.32	43,327	(3.57)	149,090	(0.15)
1991	105,593	(0.16)	42,407	(2.12)	148,000	(0.73)
1992	106,579	0.93	41,890	(1.22)	148,469	0.32
1993	106,572	1.87	42,631	1.77	151,203	1.84
1994	111,492	4.62	45,435	6.58	156,927	3.78
1995*	114,763	2.93	48,014	5.68	162,777	3.73

* OPI projections, including full-time special education students

State GTB costs will grow over the next five years as more school budgets approach the minimum budget levels. In fiscal 1993, 55 percent of all high school districts and 53 percent of all elementary schools had budgets below the minimum. These districts are required to increase their budgets to the minimum by 1998. As this occurs, state GTB costs will increase.

In estimating the state cost of the new equalization program for the 1995 biennium, the staff of the Office of the Legislative Auditor (OLA) made assumptions about districts' budgeting: the speed with which districts would move toward the minimum budget, the number of districts that would increase their budget by the maximum amount, and districts' handling of nonlevy revenue. Districts' decisions regarding their budgets may increase state costs, particularly in the following areas:

- ◆ The OLA estimates do not reflect any base building budget increases that may occur in fiscal 1993. Districts with previous year budgets below the minimum budget that increase their budgets in fiscal 1993 may qualify for more GTB than estimated.

◆ The OLA estimate did not include the cost of a large number of districts choosing to increase their budgets by 4 percent of the previous year's per ANB general fund budget multiplied by the current year's ANB. State costs could increase by over \$5.0 million during the 1995 biennium if many districts make this choice.

Effect on Districts Budgets

Under the new school equalization program, many districts will receive less state aid than they did in fiscal 1993. All districts will receive less from the basic and per-ANB entitlements than from the foundation schedule payments under the previous law. Districts with high taxable values that do not qualify for GTB aid will receive less total state aid than under previous law. Districts eligible for GTB aid may receive less in total state aid than they would have under previous law because the reduction in per-ANB state aid exceeds the increase in GTB aid. However, other GTB-eligible districts may receive an increase in state aid if their GTB aid increase offsets the decrease in per-ANB support.

SCHOOL EQUALIZATION PROGRAM

Districts that receive less state aid but choose to maintain or increase their budgets will require higher property tax levies than under previous law. In fiscal 1994 and 1995, these increased levies are subject to the approval of local school boards, rather than district voters.

SEA Revenue Sources

State support for the school equalization program is funded from the school equalization account (SEA) and the general fund. The table and graphs on the following pages show the revenue sources for the SEA.

While the SEA was intended as the main revenue source for the equalization program, insufficient revenue in 8 of the last 14 years in the account has required transfers from other accounts in order to fund state payments to local districts. As a result of Senate Bill 378 passed during the 1993 session, in the future the SEA will need substantial transfers every year. Effective in fiscal 1995, income tax, corporation tax, and coal tax trust interest currently allocated to the SEA will be allocated to the general fund. As a result, SEA revenues from state sources will be \$135.4 million less in fiscal 1995 than in fiscal 1994. In order to maintain the solvency of the account during the 1995 biennium, the 1993 Legislature appropriated

\$124.9 million general fund to the SEA in House Bill 667. As the fund balance sheet on the following page shows, an additional \$1.9 million supplemental will be needed, based on current revenue and expenditure estimates.

However, these estimates do not include approximately \$9.0 million of additional revenue that the Department of Revenue calculates will be received from the 40 mill statewide levy and the 55 mill count equalization levies during the 1995 biennium, due to higher property tax values resulting from reappraisal. The new valuation numbers were not available when the legislature finalized its revenue estimates.

As the fund balance shows, the SEA will continue to have an outstanding loan balance, despite the large general fund supplemental. In fiscal 1991, the SEA had insufficient revenue so a general fund loan was made to ensure that statutory equalization payments would be made. This loan was repaid in August 1992 with fiscal 1992 revenue, but continual loans were needed throughout the 1993 biennium to fund equalization payments. This need for general fund loans will continue in the 1995 biennium. While general fund supplementals were provided to the SEA in the 1993 biennium (\$12.1 million) and in the 1995 biennium (\$124.9 million), funds were not provided to retire the original fiscal 1991 loan.

SCHOOL EQUALIZATION PROGRAM

Estimated School Equalization Fund Balance Figures In Millions

	Actual Fiscal 1992	Estimated Fiscal 1993	Estimated Fiscal 1994	Estimated Fiscal 1995	Estimated FY 92-93	Estimated FY 94-95
Beginning Fund Balance	\$8.474	\$2.552	\$5.830	\$14.300	\$8.474	\$5.830
Receipts						
Estimated Receipts	387.675	404.352	404.817	271.303	792.027	676.120
Total Available	\$396.149	\$406.904	\$410.647	\$285.603	\$800.501	\$681.950
Disbursements						
Current Level Schedules	347.866	353.436	270.405	277.492	701.302	547.897
Guaranteed Tax Base	46.138	46.775	120.609	133.221	92.913	253.830
Transportation Costs	3.908	3.914	3.908	3.914	7.822	7.822
OPI Administration			0.400			0.400
Telecommunications Network	0.147	0.151	0.200	0.200	0.298	0.400
SIMMS			0.500	0.500		1.000
Childrens Treatment			0.250	0.250		0.500
Bonus Payments			0.075	0.100		0.175
Anticipated Disbursements	\$398.059	\$404.276	\$396.347	\$415.677	\$802.335	\$812.024
Adjustments	(7.638)				-7.638	
Residual Equity Transfer		3.202		3.300	3.202	3.300
General Fund Transfer	12.100			126.774	12.100	126.774
Ending Fund Balance	<u>\$2.552</u>	<u>\$5.830</u>	<u>\$14.300</u>	<u>\$0.000</u>	<u>\$5.830</u>	<u>\$0.000</u>
Ending Cash Balance	<u>\$3.026</u>	<u>\$6.304</u>	<u>\$14.774*</u>	<u>\$0.474</u>	<u>\$6.304</u>	<u>\$0.474</u>
Outstanding Loan Balance	<u>\$26.935</u>	<u>\$26.935</u>	<u>\$26.935</u>	<u>\$26.935</u>	<u>\$26.935</u>	<u>\$26.935</u>

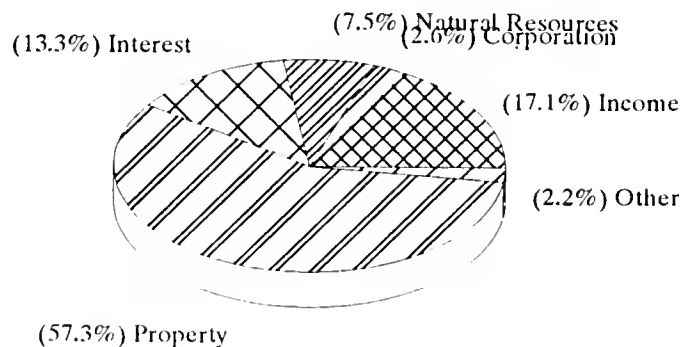
*Effective in fiscal 1994, House Bill 667 requires that "any surplus revenue in the [SEA] at the end of a fiscal year must be transferred to the general fund." Since the SEA has an outstanding loan to the general fund and will require a substantial general fund supplemental to fund fiscal 1995 appropriations, it is unclear what revenue would be considered "surplus". If the estimated \$14.7 million cash balance in the SEA is considered "surplus" and transferred to the general fund, the fiscal 1995 general fund supplemental needed to maintain solvency in the SEA will be increased by a like amount.

SCHOOL EQUALIZATION PROGRAM

Figures In Millions

Source of Revenue	Actual Fiscal 1992	Estimated Fiscal 1993	Estimated Fiscal 1994	Estimated Fiscal 1995	Estimated FY 92-93	Estimated FY 94-95
State Revenue						
Income Tax	92.880	101.917	115.840	0.000	194.797	115.840
Corporation Tax	14.975	20.287	17.773	0.000	35.262	17.773
Coal Tax	6.169	4.511	4.440	4.437	10.680	8.877
Interest & Income	39.616	41.622	40.018	42.400	81.238	82.418
Us Oil & Gas Royalties	21.150	20.893	20.664	20.968	42.043	41.632
Education Trust Interest	0.108	0.136	0.136	0.140	0.244	0.276
SEA Interest	0.000	0.000	0.000	0.000	0.000	0.000
Permanent Trust Interest	7.060	7.587	6.908	0.000	14.647	6.908
Lottery	5.494	5.285	5.522	5.798	10.779	11.320
Statewide 40 Mills	76.612	72.612	73.821	75.932	149.224	149.753
Miscellaneous	12.100	0.000	0.000	0.000	12.100	0.000
County Levy Surplus	9.874	0.000	0.000	0.000	9.874	0.000
Total State	\$286.039	\$274.850	\$285.122	\$149.675	\$560.889	\$434.797
Statewide Taxable Valuation	\$1,559.407	\$1,612.780	\$1,637.303	\$1,681.548		
County Revenue						
45/55 Mills	75.893	88.703	90.052	92.485	164.596	182.537
Elementary Transportation	0.000	0.000	0.000	0.000	0.000	0.000
Cash Reappropriated	6.718	10.842	0.000	0.000	17.560	0.000
Forest Funds	2.306	2.997	2.599	3.017	5.303	5.616
Taylor Grazing	0.150	0.150	0.150	0.150	0.300	0.300
Miscellaneous	29.661	27.939	28.023	27.105	57.600	55.128
High School Tuition	-0.993	-1.129	-1.129	-1.129	-2.122	-2.258
Total County	\$113.736	\$129.502	\$119.695	\$121.628	\$243.238	\$241.323
District Revenue						
Permissive Levy	0.000	0.000	0.000	0.000	0.000	0.000
Light Vehicle Replacement	0.000	0.000	0.000	0.000	0.000	0.000
Total District	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Total State, County, District	\$399.775	\$404.352	\$404.817	\$271.303	\$804.127	\$676.120

Foundation Program Revenue Analysis Contribution By Major Component FY 94-95



STATE EMPLOYEES (FTE)

1993 Legislative Action

The 1993 Legislature reduced the number of state employees funded¹ in House Bill 2 by a net 73.49 full-time equivalents (FTE) from the level authorized by the 1991 Legislature (as revised during the two special sessions). Table 1 compares the FTE funded by the

legislature in House Bill 2 for the 1993 and 1995 biennia.

The reduction in FTE for the 1995 biennium contrasts with recent biennia, in which the number of FTE funded in the general appropriations act increased. For example, during the 1993 biennium 237.27 additional FTE were funded in House Bill 2.

Agency**	HB2 FTE Fiscal 1992***	HB2 FTE Fiscal 1993***	Legislative Action FTE 1994	Legislative Action FTE 1995	Increase (Decrease) FY93-95
Legislative Auditor	67.50	67.50	63.50	63.50	(4.00)
Legislative Fiscal Analyst	17.50	18.00	16.80	16.80	(1.20)
Legislative Council	45.70	53.70	42.97	48.14	(5.56)
Environmental Quality Council	7.00	7.00	6.50	6.50	(0.50)
Consumer Counsel	4.25	4.25	5.25	5.25	1.00
Judiciary	91.50	92.00	89.25	89.25	(2.75)
Governor's Office	59.50	58.50	55.75	55.75	(2.75)
Secretary of State	35.25	35.25	34.30	34.30	(0.95)
Comm. of Political Practices	3.50	3.00	3.25	3.25	0.25
State Auditor	70.00	70.00	72.75	73.00	3.00
Office of Public Instruction	140.23	140.23	141.23	141.23	1.00
Crime Control Division	18.00	18.00	19.00	19.00	1.00
Highway Traffic Safety	8.50	8.50	8.50	8.50	0.00
Department of Justice	645.40	638.40	659.80	651.80	13.40
Public Service Regulation	47.00	47.00	44.50	44.50	(2.50)
Board of Public Education	4.00	4.00	4.00	4.00	0.00
Comm. of Higher Education	67.45	66.95	84.95	87.95	21.00
School for the Deaf & Blind	85.38	85.38	81.68	81.68	(3.70)
Montana Arts Council	7.97	7.97	9.97	9.97	2.00
Library Commission	29.50	29.50	28.50	28.50	(1.00)
Council on Vocational Education	2.50	2.50	2.50	2.50	0.00
Historical Society	47.88	47.88	48.63	48.63	0.75
Dept. of Fish, Wildlife, & Parks	553.03	553.13	554.95	553.37	0.24
Dept. of Health & Env. Sciences	384.94	386.94	451.04	456.09	69.15
Dept. of Transportation	2,004.77	2,007.07	1,933.75	1,933.75	(73.32)
Dept. of State Lands	359.71	366.37	358.27	360.36	(6.01)
Dept. of Livestock	119.71	117.71	122.71	123.71	6.00
Dept. of Nat. Resources & Cons.	262.20	262.20	244.42	244.42	(17.78)
Dept. of Revenue****	670.09	674.08	669.39	659.89	(14.19)
Dept. of Administration	318.14	322.14	311.26	315.26	(6.88)
Public Employees' Retirement Bd.	20.00	20.00	22.00	21.00	1.00
Teachers' Retirement Board	11.50	11.50	11.50	11.50	0.00
Dept. of Agriculture	99.04	99.09	97.26	95.93	(3.16)
Dept. of Corr. & Human Services	2,077.22	2,042.46	1,882.05	1,872.05	(170.41)
Dept. of Commerce	324.31	325.81	337.81	338.81	13.00
Dept. of Labor and Industry	639.00	639.00	659.00	659.00	20.00
State Mutual Insurance Fund	218.90	217.90	233.75	238.75	20.85
Dept. of Military Affairs	99.75	99.75	99.40	98.65	(1.10)
Dept. of Social & Rehab. Serv.	906.90	909.15	944.45	988.45	79.30
Dept. of Family Services	599.60	583.60	607.18	574.93	(8.67)
Total FTE	11,174.32	11,143.41	11,063.77	11,069.92	(73.49)

*Excludes FTE added through budget amendments, legislative contract authority, or other operational changes
 **Excludes University System
 ***As approved by the legislature through the July special session. The FTE shown for FY92 and FY93 current level in Budget Analysis may vary in some cases due to current level adjustments
 ****Excludes liquor store employees and additional FTE authorized had Senate Bill 235 been approved by the electorate.

¹While the legislature considers and adopts FTE levels in approving state agency budgets in House Bill 2, under current law the legislature does not appropriate FTE, but rather appropriates funding for FTE. Actual FTE levels are determined by the executive branch, judiciary, legislative agencies, and Montana University System (MUS). FTE are also added throughout the biennium through administrative appropriations, legislative contract authority, supplemental appropriations, and budget amendments.

STATE EMPLOYEES (FTE)

5 Percent Requirement and Vacant FTE

During the July 1992 special session, the legislature added language to House Bill 2 requiring that most agencies submit their 1995 biennium current level budget requests with FTE reductions totalling 5 percent of their fiscal 1993 personal service budget (prior to the January 1992 special session budget reductions). The Office of Budget and Program Planning (OBPP) required that requests to retain these FTE be submitted as budget modifications. The legislature exempted the following agencies from this requirement: agencies with 20 or fewer FTE; agencies that are administratively attached to a department for administrative purposes only; and the MUS (with the exception of the Office of the Commissioner of Higher Education [CHE]). As discussed in the "Comparison with Executive Budget" section, the Executive Budget recommended budget modifications to retain 270.57 of the FTE identified in meeting the 5 percent reductions.

In a joint meeting held during the first week of the 1993 legislative session, the House Appropriations and Senate Finance and Claims committees approved motions that eliminated in the 1995 biennium: 1) all FTE identified by agencies in response to the 5 percent requirement; and 2) all positions that were vacant as of the pay period ending December 12, 1992.

The joint committee motions exempted the Department of Corrections and Human Services and the MUS (with the exception of the CHE) from these motions.

Table 2 shows the impact of these motions and subsequent legislative action. Of the 822.04 FTE eliminated as a result of these motions, 460.83 FTE were eliminated due to the 5 percent motion and an additional 361.21 FTE were eliminated due to vacancies. During the legislative process, the legislature restored 573.54 of these FTE, resulting in a net reduction of 248.50 FTE.

STATE EMPLOYEES (FTE)

Table 2
Legislative Action Regarding Positions Removed by Joint
Committee Action, January 6, 1993

	-----Joint Committee Action----- Removed by 5% Reduction	Removed by Being Vacant	Total FTE Removed	FTE Restored by Legislature	Net FTE Removed
General Government and Transportation					
Legislative Auditor	4.00	0.00	4.00		4.00
Legislative Fiscal Analyst	Exempt	0.00	0.00		0.00
Consumer Counsel	Exempt	0.00	0.00		0.00
Legislative Council	4.20	0.00	4.20		4.20
Environmental Quality Council	Exempt	0.00	0.00		0.00
Governor's Office	3.25	8.00	11.25	8.00	3.25
Commissioner of Political Practices	Exempt	0.00	0.00		0.00
Judiciary	Exempt	0.00	0.00		0.00
Secretary of State	1.95	0.00	1.95	1.00	0.95
Justice	32.50	20.25	52.75	27.75	25.00
Board of Crime Control	Exempt	1.00	1.00	1.00	0.00
Highway Traffic Safety	Exempt	0.00	0.00		0.00
Revenue	34.90	37.70	72.60	64.09	8.51
Transportation	136.25	110.28	246.53	174.66	71.87
State Auditor	3.33	4.00	7.33	5.33	2.00
Military Affairs	4.50	2.00	6.50	2.00	4.50
Administration	15.38	7.50	22.88	3.50	19.38
State Compensation Mutual Ins. Fund	Exempt	10.25	10.25	7.00	3.25
Public Employees' Retirement Board	Exempt	1.00	1.00	1.00	0.00
Teachers' Retirement Board	Exempt	1.00	1.00	1.00	0.00
SUBTOTAL	240.26	202.98	443.24	296.33	146.91
Human Services					
Labor and Industry	32.25	9.00	41.25	39.25	2.00
Social and Rehabilitation Services	49.32	21.25	70.57	44.87	25.70
Health and Environmental Sciences	20.09	12.75	32.84	29.09	3.75
Department of Family Services	29.85	21.75	51.60	51.60	0.00
SUBTOTAL	131.51	64.75	196.26	164.81	31.45
Natural Resources and Commerce					
Agriculture	4.00	7.70	11.70	6.62	5.08
Fish, Wildlife, and Parks	20.41	32.54	52.95	48.26	4.69
Livestock	4.00	1.00	5.00	5.00	0.00
Natural Resources and Conservation	12.78	6.00	18.78	3.00	15.78
State Lands	14.84	21.72	36.56	24.17	12.39
Public Service Regulation	3.00	2.00	5.00	2.50	2.50
Commerce	16.00	10.45	26.45	7.95	18.50
SUBTOTAL	75.03	81.41	156.44	97.50	58.94
Institutions and Cultural Education					
Corrections and Human Services	Exempt	Exempt	Exempt		
Montana Library Commission	1.74	0.50	2.24	1.24	1.00
Montana Arts Council	Exempt	0.00	0.00		0.00
Montana Historical Society	2.59	1.25	3.84	3.84	0.00
SUBTOTAL	4.33	1.75	6.08	5.08	1.00
Education					
Commissioner of Higher Education	0.00 *	5.80	5.80	5.80	0.00
University System	Exempt	Exempt	0.00		0.00
Vocational-Technical Centers	Exempt	Exempt	0.00		0.00
Agricultural Experiment Station	Exempt	Exempt	0.00		0.00
Cooperative Extension Service	Exempt	Exempt	0.00		0.00
Forestry Experiment Station	Exempt	Exempt	0.00		0.00
Bureau of Mines	Exempt	Exempt	0.00		0.00
Fire Services Training School	Exempt	Exempt	0.00		0.00
Advisory Council for Vocational Education	Exempt	0.00	0.00		0.00
Board of Public Education	Exempt	0.00	0.00		0.00
Office of Public Instruction	6.00	3.90	9.90	3.40	6.50
School for the Deaf and Blind	3.70	0.62	4.32	0.62	3.70
SUBTOTAL	9.70	10.32	20.02	9.82	10.20
TOTAL	460.83	361.21	822.04	573.54	248.50

*The legislature eliminated \$88,270 in funding but no FTE to reflect the 5% personal services reduction.

STATE EMPLOYEES (FTE)

While DCHS was exempted from the joint committee motions, it experienced the largest reduction in FTE in state government: 170.41 FTE or 8.3 percent of its authorized positions in fiscal 1993. These reductions resulted from the elimination of hospital and nursing home services at Galen, capping of the inmate population at the men's prison, and increased emphasis on community corrections.

New and Expanded Programs

As Table 3 shows, the legislature eliminated almost 500 FTE from current level budgets as a result of the joint committee motions, DCHS changes, and other reductions in state government. However, these reductions were offset by the addition of over 400 FTE in new or expanded programs in budget modifications. In agency narratives, budget modification tables detail the number of FTE added, the new or expanded programs, and the funding source.

Table 3 Changes in FTE Funded in House Bill 2 Compared to FY93		
	<u>FY94</u>	<u>FY95</u>
Current Level	(472.50)	(482.58)
Budget Modifications	<u>392.86</u>	<u>409.09</u>
Net Reduction	(79.64)	(73.49)

Many of the new FTE are in programs designed to help control state costs:

1) Child support enforcement. The legislature approved the addition of 59.0 FTE for increased enforcement and collection of child support obligations, with the intent of reducing welfare costs. During the 1991 regular and July 1992 special sessions, the legislature approved additional funds to contract for increased enforcement efforts. At the Executive's request, contracted services authority was transferred to personal services to allow the hiring of additional

state employees, which the agency considered more cost-effective than contracting.

2) Workers' compensation. The 1993 Legislature added 31.5 FTE in the State Fund and departments of Justice and Labor and Industry to implement legislation designed to control workers' compensation costs.

3) Human service programs. The legislature added 5.0 FTE in the Department of Social and Rehabilitation Services (SRS) to improve efficiencies in administration of welfare training programs and to help control medicaid costs.

Over 50 of the FTE added by the 1993 Legislature are federally-funded to implement new federal programs or mandates:

1) In the Department of Transportation, 17.0 FTE were added to implement the Intermodal Surface Transportation Efficiency Act (ISTEA), the six-year federal transportation act.

2) In the Department of Health and Environmental Sciences (DHES), 18.15 federally-funded FTE were added in environmental and preventive health programs. In addition, 46.45 new FTE funded with fee (state special) revenue, private funds, and proprietary funds were approved.

3) In CHE's Guaranteed Student Loan program, the legislature approved 16.0 additional FTE to administer new federal loan programs, as well as the increased workload due to additional borrowers and lenders. Prior to fiscal 1990, CHE contracted with an out-of-state firm to handle these functions.

A net total of 14.95 FTE were formerly funded through statutory appropriations, but are now appropriated in House Bill 2:

1) 16.7 FTE employed by the Petroleum Tank Release Compensation Board (total board FTE funded is 23.7) in DHES.

2) 1.5 FTE for microbusiness development in the Department of Commerce.

STATE EMPLOYEES (FTE)

3) 3.25 FTE in the Judiciary for district court reimbursement and court automation, formerly funded

by House Bill 2, are funded statutorily in the 1995 biennium.

STATE EMPLOYEE PAY PLAN

House Bill 198

The legislature enacted pay plan adjustments for state employees in House Bill 198. The bill provides two adjustments to state employee compensation in the 1995 biennium: 1) increases in salaries; and 2) increases in employer insurance contributions. In addition, the bill includes a provision for termination pay for certain employees.

Salary Increases

House Bill 198 provides a 1.5 percent salary increase beginning in the second half of fiscal 1995. It also provides an additional salary increase for institutional teachers and teachers at the Montana School for the Deaf and Blind (MSDB).

1.5 Percent Salary Increases

House Bill 198 includes funding to provide all state employees, including employees of the Montana University System (MUS), with a 1.5 percent increase in base salary beginning the first full pay period after January 1, 1995. A total of \$1,648,588 general fund and \$1,868,453 other funds was appropriated in the bill to fund this increase. The cost of the increase in the 1997 biennium is anticipated to total approximately \$6.79 million general fund and \$7.67 million other funds.

History of Salary Increases

Table 1 provides information on salary increases of state employees since fiscal 1988. No increases were given in the 1989 biennium. An average 2.5 percent increase was given each year of the 1991 biennium. In the 1993 biennium, two increases were given: 1) a market progression adjustment; and 2) an increase of \$0.60 per hour in fiscal 1992, with an additional \$0.25 per hour at the beginning of fiscal 1993 and a further \$0.20 per hour in the second six months of the fiscal year.

Table 1 Total Percentage Increases in Salary - Selected Grades* 1988 Through 1995				
Fiscal Year	Grade 8	Grade 12	Grade 16	Grade 20
1988	0.00%	0.00%	0.00%	0.00%
1989	0.00%	0.00%	0.00%	0.00%
1990	3.20%	2.50%	2.50%	2.50%
1991	3.10%	2.50%	2.50%	2.50%
1992	8.80%	7.20%	5.30%	4.20%
1993	6.00%	5.10%	3.90%	3.30%
1994	0.00%	0.00%	0.00%	0.00%
1995	0.75%	0.75%	0.75%	0.75%
*Excludes step increases and increases in the employer contribution rate for group benefits.				
Source: Department of Administration, Personnel Division				

The table reflects the 1995 biennium increase of 1.5 percent in the second half of fiscal 1995.

Elected Officials

Elected officials' salaries, which are established by statute, were not adjusted in House Bill 198. Table 2 shows the 1995 biennium salaries of each elected official.

Table 2 Salaries of Elected Officials 1995 Biennium	
Position	Salary Each Year
Chief Justice of the Supreme Court	\$65,722
Justice of the Supreme Court	64,452
Governor	55,502
Lt. Governor	40,466
Attorney General	50,841
State Auditor	37,526
Superintendent of Public Instruction	44,177
Public Service Commission Chairman	41,750
Public Service Commissioners	40,466
Secretary of State	37,526
Clerk of the Supreme Court	36,537

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Institutional and MSDB Teachers

In addition to the 1.5 percent increase in base salary provided to other state employees, House Bill 198 provides institutional teachers (those employed by either the Department of Corrections and Human Services or the Department of Family Services) and teachers employed at MSDB with a one-step increase on the appropriate pay matrix on the first full day of the first full pay period in each year of the biennium, which is equivalent to a salary increase of approximately 3 percent each year. General fund of \$25,667 in fiscal 1994 and \$51,413 in fiscal 1995 was added to fund the increase for institutional teachers, while \$21,678 in fiscal 1994 and \$44,030 in fiscal 1995 was added to fund the MSDB increase.

Insurance Contributions

There are currently two health insurance programs for state employees: 1) employees of the MUS are covered by the MUS Group Insurance Program; and 2) all other employees are covered by the group insurance program administered by the Department of Administration (DofA). Both are funded through employer (State of Montana) and employee (active and retired) contributions.

House Bill 198 increases the state contribution for health insurance in both plans from \$190 per month in fiscal 1993 to \$210 in fiscal 1994 and \$230 in fiscal 1995. According to DofA and MUS staff, this increase is sufficient to fund all projected increases in premium cost in fiscal 1994. Consequently, neither employee contributions or benefit levels will be adjusted in that year. However, adjustments may be necessary in fiscal 1995.

Table 3 shows the history of state and employee contributions since fiscal 1988. Employer monthly contributions have increased by \$20 each year since fiscal 1990, resulting in a doubling of the contribution between fiscal 1988 and fiscal 1995.

Table 3
Monthly Health Insurance Premium and
Employer Contribution History
Insurance Years 1988 to 1995

Year	State Share	Core Plan Premium	Additional Premium for Family Coverage	Employee Cost for Family Coverage
1988	115.00	101.20	57.00	43.20
1989	115.00	101.20	57.00	43.20
1990	130.00	116.20	57.00	43.20
1991	150.00	136.30	67.00	53.30
1992	170.00	156.30	84.00	70.30
1993	190.00	176.30	89.00	75.30
1994	210.00	196.30	89.00	75.30
1995	230.00	N/A	N/A	N/A

Source: Department of Administration

Appropriations

House Bill 198 appropriates \$6.5 million general fund and \$7.6 million other funds for the adjustments to the state employee pay plan. The bill provides specific appropriations to legislative agencies, the Judiciary, and the university system. The remainder is appropriated to the Office of Budget and Program Planning (OBPP) for distribution to all other state agencies, as shown in Table 4. OBPP will complete the allocations to agencies prior to the end of fiscal year 1993.

Table 4
HB198 - State Employee Pay Plan
Total Funding By Agency
1995 Biennium

Funding Unit	— Fiscal 1994 —		— Fiscal 1995 —	
	General Fund	Other Funds	General Fund	Other Funds
Legislative Auditor	\$7,113	\$7,705	\$22,301	\$24,200
Legislative Fiscal Analyst	3,792	0	12,751	0
Legislative Council	5,593	3,247	26,374	5,631
Environmental Quality Council	1,543	0	4,682	30
Consumer Counsel	0	1,200	0	4,400
Judiciary	19,286	2,687	70,178	7,174
Montana University System	505,746	293,708	1,926,552	855,258
All Other Agencies	975,225	1,681,230	2,811,663	4,755,579
Total Funding	\$1,619,299	\$1,889,677	\$4,874,501	\$5,662,382

STATE EMPLOYEE PAY PLAN

Table 5 shows the total appropriation for each component of the increase by fiscal year.

Table 5 HB198 - State Employee Pay Plan Total Funding By Increase 1996 Biennium				
Pay Plan Increase	--- Fiscal 1994 ---		--- Fiscal 1995 ---	
	General Fund	Other Funds	General Fund	Other Funds
1.5 Percent Salary Increase	\$0	\$0	\$1,648,588	\$1,868,463
Insurance Increase	1,571,954	1,889,677	3,130,470	3,793,929
MSDB Teachers	21,678	0	44,030	0
Institutional Teachers	25,667	0	51,413	0
Total Funding	\$1,619,299	\$1,889,677	\$4,874,501	\$5,662,392

Severance Pay

In addition to the adjustments in employee compensation, House Bill 198 provides that a state employee whose employment is terminated because of a reduction in force is entitled to one week of severance pay for each year employed, up to a maximum of two weeks of pay. No appropriation was included in the bill for termination pay.

Another bill passed by the 1993 Legislature, House Bill 522, provides for certain services to state employees whose positions are eliminated, including:

- 1) notice of announcements for jobs for which the employee may qualify for one year from the termination date;
- 2) access to Job Training Partnership Act (JTPA) dislocated worker job retraining and career development programs;
- 3) inclusion in a special job register;
- 4) salary and benefits protection if transferred to a different position in a state agency; and
- 5) continued contribution of the state health insurance contribution for six months from the effective date of layoff.

Any employee choosing to accept the severance pay provisions of House Bill 198 is not eligible for the services provided in House Bill 522, with the exception of the JTPA job retraining and career development programs.

Pay Matrices

During the 1991 regular session, the legislature enacted in House Bill 509 a substantial change in the state employee classification and compensation system. It repealed the "grade-and-step" employee pay system that had been in effect since 1975 and implemented a "market-based" plan.

Under a market-based plan, the entry and market salaries are based upon salary surveys of comparable jobs in the "relevant job market". The entry and market salaries in House Bill 509 were based upon a survey done in 1990 of Montana public and private employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington. The salaries for each grade are based upon the weighted average survey salaries for selected occupations within each grade.

Under the new open-range structure, employees are no longer in the previous 13-step structure and new state employees do not receive a one-step increase after satisfactory completion of a probationary period. Rather, new employees are hired at the entry salary and progress toward the market salary based upon formula-driven progression increases. The 1991 Legislature funded progression rate increases of 0.125 percent for the 1993 biennium for state employees covered under the general matrix. No progression increases are funded during the 1995 biennium.

In adopting the new pay system, the 1991 Legislature stated (section 2-18-301, MCA):

It is the intent of the legislature that compensation for state employees...be based on an analysis of the labor market as provided by the department in a salary survey to the legislature at the start of each legislative session.

In October, 1992, DofA completed the 1992 salary survey. The survey showed:

- 1) the lag between the market salary and the average salary paid to state employees lessened (from 13 percent in the 1990 period to 9 percent in 1992);
- 2) the market has continued to increase by about 3 percent per year; and

STATE EMPLOYEE PAY PLAN

3) salaries for state employees at the lower grade levels are **higher** than for comparable positions in the market survey, while salaries for employees in middle and high grade levels are **lower** than the market. This finding is similar to the 1990 survey.

House Bill 198 maintains the fiscal 1993 entry and market salary levels contained in the general pay matrix for the 1995 biennium. Table 6 shows the matrix.

Table 6 General Pay Matrix 1995 Biennium		
Annual Hours -- 2080 Pay Matrix -- State		Note: Does Not Include Insurance Matrix Type -- Annual
Grade	Entry Salary	Market Salary
1	\$8,679	\$10,210
2	9,349	11,025
3	10,070	11,903
4	10,852	12,868
5	11,727	13,927
6	12,672	15,086
7	13,688	16,334
8	14,836	17,747
9	16,064	19,262
10	17,424	20,942
11	18,904	22,775
12	20,545	24,812
13	22,325	27,027
14	24,296	29,485
15	26,465	32,196
16	28,885	35,226
17	31,585	38,613
18	34,562	42,355
19	37,897	46,557
20	41,618	51,254
21	45,754	56,487
22	50,373	62,343
23	55,584	68,963
24	61,434	76,410
25	67,907	84,673

Table 7 12 Month Teacher Pay Matrix Fiscal 1994, First Six Months Fiscal 1995						
Annual Hours -- 2080 Term -- Twelve Months		Note: Does Not Include Insurance Matrix Type -- Annual				
Step	BA	BA+1	BA+2	BA+3	MA	MA+1
1	\$22,412	\$23,071	\$23,713	\$24,034	\$24,357	\$25,016
2	23,167	23,883	24,600	24,959	25,322	26,065
3	23,922	24,713	25,495	25,909	26,323	27,138
4	24,678	25,556	26,421	26,878	27,334	28,208
5	25,438	26,421	27,353	27,848	28,346	29,280
6	26,226	27,297	28,288	28,822	29,358	30,352
7	27,016	28,166	29,217	29,793	30,367	31,420
8	27,810	29,039	30,153	30,767	31,381	32,490
9	28,603	29,910	31,085	31,737	32,394	33,561
10	29,396	30,786	32,016	32,709	33,403	34,633
11	30,191	31,628	32,945	33,680	34,415	35,702
12	30,191	31,628	32,945	33,680	34,415	35,702
13	30,191	31,628	32,945	33,680	34,415	35,702

Table 8 12 Month Teacher Pay Matrix Second Six Months Fiscal 1995						
Annual Hours -- 2080 Term -- Twelve Months		Note: Does Not Include Insurance Matrix Type -- Annual				
Step	BA	BA+1	BA+2	BA+3	MA	MA+1
1	\$22,748	\$23,417	\$24,069	\$24,395	\$24,722	\$25,391
2	23,515	24,241	24,969	25,333	25,702	26,456
3	24,281	25,084	25,877	26,298	26,718	27,545
4	25,048	25,939	26,817	27,281	27,744	28,631
5	25,820	26,817	27,763	28,266	28,771	29,719
6	26,619	27,706	28,712	29,254	29,798	30,807
7	27,421	28,588	29,655	30,240	30,823	31,891
8	28,227	29,475	30,605	31,229	31,852	32,977
9	29,032	30,359	31,551	32,213	32,880	34,064
10	29,837	31,248	32,496	33,200	33,904	35,152
11	30,644	32,102	33,439	34,185	34,931	36,238
12	30,644	32,102	33,439	34,185	34,931	36,238
13	30,644	32,102	33,439	34,185	34,931	36,238

Tables 7 through 14 show the matrices that apply to other classified state employees: teachers, liquor store occupations, and blue collar workers. These matrices were amended to reflect the 1.5 percent salary increase in the second half of fiscal 1995.

STATE EMPLOYEE PAY PLAN

Table 9

9 Month Teacher Pay Matrix Fiscal 1994, First Six Months Fiscal 1995

Annual Hours -- 1560
Term -- Nine Months

Note: Does Not Include Insurance
Matrix Type -- Annual

Step	BA	BA+1	BA+2	BA+3	MA	MA+1
1	\$17,924	\$18,432	\$18,953	\$19,207	\$19,462	\$19,983
2	18,521	19,087	19,654	19,937	20,222	20,788
3	19,117	19,742	20,355	20,670	20,982	21,594
4	19,716	20,401	21,056	21,400	21,743	22,400
5	20,311	21,056	21,757	22,130	22,504	23,207
6	20,909	21,715	22,461	22,862	23,265	24,013
7	21,503	22,368	23,160	23,593	24,025	24,817
8	22,101	23,026	23,864	24,325	24,788	25,622
9	22,698	23,681	24,565	25,056	25,549	26,443
10	23,295	24,339	25,266	25,786	26,321	27,292
11	23,892	24,974	25,968	26,537	27,119	28,135
12	23,892	24,974	25,968	26,537	27,119	28,135
13	23,892	24,974	25,968	26,537	27,119	28,135

Table 10

9 Month Teacher Pay Matrix Second Six Months Fiscal 1995

Annual Hours -- 1560
Term -- Nine Months

Note: Does Not Include Insurance
Matrix Type -- Annual

Step	BA	BA+1	BA+2	BA+3	MA	MA+1
1	\$18,193	\$18,708	\$19,237	\$19,496	\$19,754	\$20,283
2	18,799	19,373	19,949	20,236	20,525	21,100
3	19,404	20,038	20,660	20,980	21,297	21,918
4	20,012	20,707	21,372	21,721	22,069	22,736
5	20,616	21,372	22,083	22,462	22,842	23,555
6	21,223	22,041	22,798	23,205	23,614	24,373
7	21,826	22,704	23,507	23,947	24,385	25,189
8	22,433	23,371	24,192	24,690	25,160	26,006
9	23,038	24,036	24,933	25,432	25,932	26,840
10	23,644	24,704	25,645	26,173	26,716	27,701
11	24,250	25,349	26,358	26,935	27,526	28,557
12	24,250	25,349	26,358	26,935	27,526	28,557
13	24,250	25,349	26,358	26,935	27,526	28,557

Table 11

Liquor Store Occupations Pay Matrix Fiscal 1994, First Six Months Fiscal 1995

Annual Hours -- 2080
Pay Matrix -- Retail Clerk

Note: Does Not Include Insurance
Matrix Type -- Hourly

Grade	\$/Hour
L1	0.000
L2	8.609
L3	9.109
L4	9.389
L5	9.679
L6	10.289
L7	10.949
L8	11.699

Table 12

Liquor Store Occupations Pay Matrix Second Six Months Fiscal 1995

Annual Hours -- 2080
Pay Matrix -- Retail Clerk

Note: Does Not Include Insurance
Matrix Type--Hourly

\$/Hour	Grade
L1	0.000
L2	8.754
L3	9.254
L4	9.534
L5	9.824
L6	10.434
L7	11.094
L8	11.844

STATE EMPLOYEE PAY PLAN

Table 13
Blue Collar Pay Matrix
Fiscal 1994, First Six Months Fiscal 1995

Annual Hours -- 2080
Pay Matrix -- Blue Collar

Note: Does Not Include Insurance
Matrix Type -- Hourly

Grade	\$/Hour
B1	9.084
B2	9.484
B3	9.884
B4	10.284
B5	10.684
B6	11.084
B7	11.484
B8	11.884
B9	12.284
B10	12.684
B11	13.084
B12	13.484
B00	13.884

Table 14
Blue Collar Pay Matrix
Second Six Month Fiscal 1995

Annual Hours -- 2080
Pay Matrix -- Blue Collar

Note: Does Not Include Insurance
Matrix Type -- Hourly

Grade	\$/Hour
B1	9.266
B2	9.666
B3	10.066
B4	10.466
B5	10.866
B6	11.266
B7	11.666
B8	12.066
B9	12.466
B10	12.866
B11	13.266
B12	13.666
B00	14.066

RETIREMENT INCENTIVE

House Bill 517

Adopting an executive recommendation, the 1993 Legislature enacted House Bill 517 which provides for a retirement incentive for state employees, including employees of the Montana University System (MUS), who are members of the Public Employees' Retirement System (PERS). At the request of the MUS, the bill also includes an incentive for employees of the MUS who are members of the Teachers' Retirement System (TRS) (which includes both faculty members and other professionals under Board of Regents contracts). The bill provides for the payment of fiscal incentives during a specified window period to encourage eligible employees to retire.

The Executive Budget estimated that the retirement incentive would generate \$3.0 million of general fund savings during the 1995 biennium through: 1) delays in refilling or eliminating vacated positions; 2) filling the vacated positions at a lower salary; and 3) elimination of some vacated positions.

PERS Members

Eligibility

Active members of PERS as of February 1, 1993, who are eligible for normal service retirement or early retirement may qualify for the incentive. Normal service eligibility is gained when any one of the following criteria are met:

- 1) age 60, with at least 5 years of service;
- 2) age 65 (while in service) regardless of the number of years of service; or
- 3) 30 years of service, regardless of age.

Early retirement eligibility is gained when either of the following criteria are met:

- 1) age 50, with at least 5 years service; or
- 2) 25 years of service, regardless of age.

In order to qualify for the retirement incentive, eligible employees must terminate employment after June 24, 1993, but before January 1, 1994. Any eligible employee involuntarily terminated due to a reduction in force on or after March 1, 1993, but before June 25, 1993, is entitled to the incentive, if they meet the eligibility requirements at the time of termination.

Participation in the PERS incentive is mandatory for the state and the MUS. However, participation by local governments (including school districts), who contract with PERS for employee coverage, is optional.

Nature of the Incentive

Under current law, members of PERS are eligible to receive a monthly benefit upon retirement equal to their number of years of service divided by 56, times the average of the highest contiguous 36 months' salary. If a member retires under the early retirement criteria, a penalty (called an early retirement reduction) is imposed. This actuarial reduction is a ratio based upon the retiree's age or years of service below the minimum required for normal retirement. Members may purchase additional years of service, thereby increasing their monthly retirement benefit.

Under House Bill 517, the employer must purchase one year of service for each five years of creditable service, up to a maximum of three years of additional service, for eligible employees that retire during the window period. Table 1 provides examples of the impact of the incentive for two employees: 1) one eligible for normal retirement; and 2) one eligible for early retirement.

RETIREMENT INCENTIVE

Table 1
Impact of PERS Retirement Incentive on Monthly Payment

--- Normal Retirement ---

Payment Formula:

$(\text{Years of Service}/56) \times \text{Average of Highest 36 Months Salary} = \text{Monthly Retirement Benefit}$

Assumptions

Years of Service - 20*

Age - 65

Average Salary - \$3,500 per month

Payment Calculation

-----Current-----

$$20/56 \times \$3,500 = \$1,250$$

---Retirement Incentive---

$$23/56 \times \$3,500 = \$1,437$$

Increased Monthly Payment: \$187

--- Early Retirement ---

Payment Formula:

$(\text{Years of Service}/56) \times \text{Average of Highest 36 Months Salary} \times \text{Early Retirement Reduction}$

Assumptions

Years of Service - 25*

Age - 53 years

Average Salary - \$3,500 per month

Payment Calculation

-----Current-----

$$25/56 \times \$3,500 \times 0.70 = \$1,094$$

---Retirement Incentive---

$$28/56 \times \$3,500 \times 0.88 = \$1,540$$

Increased Monthly Payment: \$446

*Eligible for 3 additional service years purchased by employer under HB517

The cost to the employing agency of purchasing an additional year of service is 13.4 percent of the employee's previous 12 months salary, for a maximum cost of 40.2 percent if three years is purchased. The Public Employees' Retirement Board may allow the employer to pay the contributions in installments for up to 10 years at a rate of interest set by the board.

TRS Employees

Eligibility

At the request of the MUS, a termination incentive for TRS members of the MUS was added to the executive proposal. TRS members employed on a full-time basis as of February 1, 1993, who are

RETIREMENT INCENTIVE

eligible for normal or early retirement may qualify for the incentive.

In addition, all optional retirement participants employed on a full-time basis as of February 1, 1993, who are at least 50 years of age may qualify.

In order to qualify for the incentive, eligible members must announce on or before December 1, 1993 an intent to terminate employment no later than the end of the 1993-94 academic contract year or the end of the 1994 summer session.

Nature of the Incentive

Unlike the PERS member incentive, in which the employer purchases service years, the incentive for TRS members of the MUS consists of a cash payment equal to one year of the combined member and employer contributions to TRS for each five years of creditable service, not to exceed the amount of combined contributions for three years. Table 2 provides an example of how the incentive would be calculated.

Table 2
Impact of TRS Retirement Incentive

Payment Formula:

(Combined Contributions [14.503%] x Years of Service Eligibility) x Final Salary = MUS Payment

Assumptions

Years of Service - 20*

Age - 62

Average Salary - \$48,000/year

Payment Calculation

(14.503 x 3) x \$48,000	=	\$20,885	(MUS Payment)
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*Receives maximum 3 years combined contributions

The cost of combined contributions is 14.503 percent of salary for each year, for a maximum payment of 43.509 percent of the final average salary. Unlike the PERS incentive, which may be paid over 10 years, no provision is allowed under the TRS incentive for installment payments. Payments must be made in full in a lump-sum. Consequently, this provision could result in a significant 1995 biennium cash obligation to the individual units of the MUS.

Staff of the Office of the Commissioner of Higher Education testified during the session that the retirement incentive could generate long-term savings, if retiring faculty were replaced by faculty receiving lower salaries or if affected positions were eliminated.

Costs or Savings of the Plan

According to the Public Employee's Retirement Division of the Department of Administration, 2,634 state employees are potentially eligible for the PERS retirement incentive. This number could be understated, as it does not include employees who could purchase service or buy back previous refunds. According to TRS, approximately 550 MUS employees are eligible to retire with some benefits under that option, with approximately 200 eligible to retire with full benefits. The potential costs and/or savings of the retirement incentive have not been calculated due to the uncertainty over which employees will use the retirement incentive and whether agencies will fill the vacated positions. The bill includes a provision requiring both the Department of Administration and the Board of

RETIREMENT INCENTIVE

Regents, in cooperation with the Public Employees' Retirement Board and Teachers' Retirement Board, to report to the 54th legislature on the effect of the retirement incentive, including:

1) a summary of the positions from which employees terminated employment;

2) whether positions vacated were refilled and when; and

3) the cost or savings resulting from the termination.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

RIT Trust

Article IX, Section 2 of the Montana constitution provides that certain taxes on the extraction of natural resources be deposited in a Resource Indemnity Tax (RIT) Trust. The principal of the trust up to \$100 million "shall remain forever inviolate...., guaranteed by the state against loss or diversion." Title 15, Chapter 38, MCA, provides for a resource indemnity tax of 0.5 percent on all mineral production except production from metalliferous mines. These revenues are deposited in the trust until the principal reaches \$100 million. After the principal reaches \$100 million, the tax revenue may be appropriated.

RIT Tax Proceeds

Beginning in the 1995 biennium, the RIT tax will be called the Resource Indemnity and Ground Water Assessment Tax (RIGWA) and its allocation changed by two pieces of legislation:

1) Senate Bill 94, passed by the 1991 Legislature, established the ground water assessment account and directed that 14.1 percent of RIT tax proceeds be deposited in that account beginning in fiscal 1994. These funds are appropriated in House Bill 2 to the Montana Bureau of Mines to implement the Montana Ground Water Assessment Act.

2) House Bill 608, passed by the 1993 Legislature, allocates 30 percent of RIT tax proceeds to state special revenue accounts used to support agency operations. One-half of the funds are deposited in the reclamation and development account, and one-half in the newly-created renewable resource grant and loan account, which combines the former water development and renewable resource accounts into one.

The tax proceeds allocation to the ground water assessment account continues until the account's cash balance reaches \$666,000, at which time the 14.1 percent of tax proceeds will once again be deposited in the RIT trust. The 30 percent allocation of tax proceeds to state special revenue accounts for agency operational support enacted in

House Bill 608 increases to 40 percent beginning in the 1997 biennium. Of that amount, 75 percent will go to the reclamation and development account and 25 percent to the renewable resource grant and loan account.

Allocation of RIT Trust Interest Earnings

The constitution requires that the interest earned on the trust be used "to improve the total environment and rectify damage thereto." Section 15-38-202, MCA, earmarks these interest earnings in the following manner for the 1995 biennium:

1) An amount not to exceed \$175,000 to the environmental contingency fund. Funds in this account are statutorily appropriated for unanticipated public needs arising from certain disasters and emergencies, which may be used upon authorization of the Governor.

2) An amount not to exceed \$50,000 to the oil and gas mitigation account. Funds in this account are statutorily appropriated to the Board of Oil and Gas Conservation for the costs of plugging wells that have been abandoned and for whom no responsible party can be found.

3) \$1,025,000 to the renewable resource grant and loan program state special revenue account for distribution as grants.

4) \$2,200,000 to the reclamation and development grants state special revenue account for distribution as grants.

5) \$250,000 to the water storage state special revenue account to provide loans and grants for water storage projects.

6) Of the remaining RIT trust interest earnings: a) 38.0 percent goes to the renewable resource grants and loan account for program and administrative costs; b) 41.5 percent goes to the reclamation and development grants account for program and administrative costs; c) 15.0 percent goes to the hazardous waste/CERCLA account for superfund

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

activities; and d) 5.5 percent goes to the environmental quality protection fund for additional superfund activities.

In the 1997 biennium, some allocations of RIT trust interest earnings will change under the provisions of House Bill 608:

- 1) the environmental contingency fund and oil and gas mitigation accounts will continue to receive \$175,000 and \$50,000 respectively;
- 2) the renewable resource grant and loan account will receive \$2 million for grants;
- 3) the reclamation and development account will receive \$3 million for grants;
- 4) the water storage account will receive \$500,000; and
- 5) the remaining interest earnings will be distributed as follows: a) 36 percent to the renewable resource grant and loan account; b) 40 percent to the reclamation and development account; c) 18 percent to the hazardous waste/CERCLA account; and d) 6 percent to the environmental quality protection fund.

The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the renewable resource grant and loan program account and the reclamation and development grant account. All grants and loans made from these accounts require legislative approval.

Renewable Resource Grant and Loan Account

This account, newly-created in the 1995 biennium, combines the former water development and renewable resource accounts. Funds in the account are used for operation and maintenance of state-owned water projects and works, program administrative costs, and grants and loans for projects that enhance renewable resources in the state. Revenue to the account includes 15 percent of RIT tax proceeds, 38 percent of RIT trust interest earnings, 0.95 percent of coal severance tax

collections exceeding debt service requirements, income from state owned water projects, and administrative fees. Loan repayments are deposited in the renewable resource debt service account.

Reclamation and Development Account

The reclamation and development account is funded with 15 percent of RIT tax proceeds and 41.5 percent of RIT trust interest earnings and is used for grants for designated projects and payment of administrative expenses.

The two other accounts receiving RIT interest earnings are the hazardous waste/CERCLA account and the environmental quality protection fund, which are administered by the Department of Health and Environmental Sciences.

Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Account

Funds in this account are used for implementation of the Montana Hazardous Waste Act, for the state's share of CERCLA, and for state expenses related to investigation of specifically defined hazardous waste.

Environmental Quality Protection Fund

Funds in this account are used to address problems caused by the release of hazardous wastes at sites not listed in the federal superfund priority list.

1995 Biennium Revenue and Appropriations

Table 1 shows RIT tax proceeds, interest projections, and anticipated revenue and expenditures from the RIT accounts during the 1995 biennium. The revenues reflect House Joint Resolution 3 revenue estimates and appropriations authorized by the 1993 Legislature.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

Table 1
RIT Tax Proceeds, Interest Earnings, and Expenditures

RIT PROCEEDS PROJECTIONS		RIT Proceeds	To RIT Trust	Ending Trust Balance	
FY 93		\$4,822,161	\$4,822,161	\$87,312,059	
FY 94		4,518,037	2,525,583	89,837,642	
FY 95		4,611,772	2,577,981	92,416,623	
RIT TRUST INTEREST EARNINGS PROJECTIONS		FY94	FY95	Total	
		\$8,649,747	\$8,902,927	\$17,552,674	
TOTAL 1995 BIENNIUM ALLOCATION OF RIT INTEREST EARNINGS				\$17,552,674	
Environmental Contingency Account			175,000		
Oil & Gas Production Damage Mitigation Account			50,000		
Renewable Resource Grant & Loan Program			1,025,000		
Reclamation & Development Grants			2,200,000		
Northern Montana College			240,000		
Water Storage Account			250,000		
TOTAL BIENNIAL APPROPRIATIONS				3,940,000	
AMOUNT AVAILABLE FOR FURTHER DISTRIBUTION				\$13,612,674	
DISTRIBUTION OF REMAINING INTEREST EARNINGS					
----- Account -----					
	Renewable Resource	Reclamation & Development	Hazardous Waste/ CERCLA	Environmental Quality Protection	Total
Percent of RITT Interest	38.0%	41.5%	15.0%	5.5%	100.0%
Beginning Balance	\$890,367	\$0	\$1,169,906	\$915,135	\$2,975,408
Revenues					
RIT Interest	\$5,172,816	\$5,649,260	\$2,041,901	\$748,697	\$13,612,674
RIT Tax Proceeds	1,369,471	1,369,471			\$2,738,942
Coal Tax	782,106				782,106
Loan Repayments	1,338,831				1,338,831
NR Damage Repayment					0
Interest (STIP)			100,000	110,000	210,000
Administrative Fees	10,000				10,000
State Owned Proj. Rev.	538,604				538,604
Total Funds Available	\$10,102,195	\$7,018,731	\$3,311,807	\$1,773,832	\$22,206,565
Appropriation					
Bond Debt Service	\$1,834,273	\$0	\$0	\$0	\$1,834,273
DNRC Centralized Services Division	1,157,119	311,576			1,468,695
DNRC CARD*	1,088,585	1,051,527	45,000		2,185,112
DNRC Water Resources Division	1,943,544	2,724,302			4,667,846
Reserved Water Rights Compact Comm	326,747	674,341			1,001,088
DNRC State Water Projects	1,785,000				1,785,000
State Project Ownership Transfer	125,088				125,088
Missouri River Reservation	274,191				274,191
Yellowstone Groundwater Study	9,708				9,708
State Water Plan	70,234				70,234
Clean Coal		50,000			50,000
Montana Salinity Control Association		200,000			200,000
DSL Reclamation Div		2,534,319			2,534,319
DSL Central Management		63,592			63,592
DHES Environmental Division			2,320,159	1,040,869	3,361,028
DHES--HB 585 Montana Radon Control Act		50,000			50,000
Governor's Office -- Flathead Basin Commission	80,082				80,082
Water Courts	1,046,712				1,046,712
State Library	207,470	183,615			391,085
Environmental Quality Council		27,256			27,256
Total Appropriations	\$9,948,753	\$7,870,528	\$2,365,159	\$1,040,869	\$21,225,309
Projected Biennium Ending Balance	\$153,442	(\$851,797)	\$946,648	\$732,963	\$981,256

*\$55,052 of reclamation & development funds is authorized by language in House Bill 2

TRUST FUNDS--INTEREST AND BALANCES

Trust Fund Balances

Montana has a number of constitutional and statutory trusts that provide interest to fund state government operations. While the legislature has spent the principal of the education trust and slowed the flow of revenue into the park acquisition and Resource Indemnity Tax trusts, substantial balances remain. By the end of the 1995 biennium, these trust balances will total nearly \$1.0 billion.

Table 1 shows the history of the seven major trusts since fiscal 1973. Forecasted amounts are shown for fiscal 1993 through fiscal 1995. Following is a description of each trust and the income it generates.

Constitutional Trusts

Permanent Coal Tax Trust

Article IX, Section 5 requires that 50 percent of all coal severance tax revenue be deposited in a permanent trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house." By statute, interest earned on this trust that is not earmarked to other programs is distributed 85 percent to the general fund and 15 percent to the school equalization account. Beginning in fiscal 1995, all the interest earnings that are not earmarked will be deposited in the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent trust is an important general fund revenue source. During the period fiscal 1981 through fiscal 1992, \$296.3 million in interest from this trust was deposited in the general fund. In fiscal 1992, permanent coal tax trust interest provided 8.2 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the

Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 Legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25% of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 Legislatures authorized the Montana Science and Technology Alliance (MSTA) to use \$12.6 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 Legislature authorized MSTA to invest an additional \$11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent trust fund. House Bill 394, enacted by the 1993 Legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

Coal tax revenue flowing into the permanent trust is also used to secure state bonds issued to finance water resource development projects and activities. Since 1981 when the legislature authorized this bonding program, \$74.3 million in water development projects throughout the state have been authorized with revenue from these bonds.

During the 1991 regular session, the legislature created the clean coal technology demonstration fund within the permanent coal tax trust and transferred \$25 million from the permanent trust into this subfund. In fiscal 1992 through fiscal 1997, an additional \$5 million a year of the coal tax revenue allocated to the trust must be deposited in this subfund. The legislation allows this portion of the trust fund to be invested in loans for clean coal technology projects approved by the legislature. The 1991 Legislature approved the installation of MHD technology at the Corlette power plant in Billings as the

TRUST FUNDS--INTEREST AND BALANCES

first clean coal technology project, making it eligible for a loan in the future. The 1993 Legislature authorized a loan of up to \$25 million for development, engineering, procurement and construction of the Billings MHD demonstration project, which will develop technologies for the production of electricity using clean coal. In order for a loan to be made, the legislature required at least a 4 to 1 federal match. In May, 1993 the U.S. Department of Energy declined to loan MHD Development Corporation funds for the project. Thus, the state loan to MHD may not be made during the 1995 biennium.

The 1991 Legislature also appropriated \$3.25 million from the permanent trust fund for the Microbusiness Development Act. These funds will provide capital to microbusiness development corporations that will provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments are retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent trust fund. The contingency fund provided up to \$25 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent trust fund. This legislation expired on January 1, 1993. House Bill 667, which was passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid is the school equalization account.

The contingency fund has provided backing for \$23.4 million in school bonds for 14 schools. The average balance in the contingency fund has averaged slightly more than \$2 million. The contingency fund will continue to exist for the next 20 years until these bonds are retired.

In the June 1992 election, voters approved a referendum to create the Treasure State Endowment fund within the permanent coal trust fund. The fund will receive a \$10 million loan from the trust principal in fiscal 1994 and half the funds deposited in the trust during fiscal 1995 through fiscal 2013. Interest earned on the Treasure State Endowment Fund will be used to finance local infrastructure projects, as prioritized by the departments of Commerce and Natural Resources and Conservation and authorized by the legislature.

The 1993 Legislature passed House Bill 401 which authorizes a loan to the Department of Health and Environmental Sciences from the permanent trust for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan is \$2,619,076 for the 1995 biennium and \$5,174,984 to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium.

Common School Trust

Article X, Sections 2 and 3 of the Montana constitution requires that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust.

During the January 1992 special session, the legislature passed House Bill 3, which provided that 95 percent of the revenue from state timber sales (approximately \$4.9 million) would be deposited in the school equalization account during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 Legislature passed House Bill 652 which continues the practice of diverting 95 percent of timber revenue to the school equalization account during the 1995 biennium. The loss in revenue to the common schools trust during the 1995 biennium will be approximately \$7.1 million. House Bill 667, also passed during the 1993 legislative session, continues this practice indefinitely.

TRUST FUNDS--INTEREST AND BALANCES

Resource Indemnity Trust

Article IX, Section 2 and Title 35, Chapter 38, MCA, require that all collections from the Resource Indemnity Tax (renamed the Resource Indemnity and Groundwater Assessment Tax or RIGWA) on minerals be placed in a trust. The trust "shall forever remain inviolate" until the principal reaches \$100 million, at which point the tax may be spent. During the 1993 legislative session, the legislature passed House Bill 608 that decreased the amount of RIGWA tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately \$8.0 million. The bill further reduced the amount of RIGWA revenue deposited in the trust to 45.9 percent beginning July 1, 1995.

During the July 1992 special session, the legislature imposed a one-year surtax on resource indemnity tax liability and allocated collections from the surtax to the general fund.

The "Resource Indemnity Trust Fund Interest Accounts" section discusses the statutory allocation of interest earned on this trust.

Statutory Trusts

Education Trust

From fiscal 1976 through 1986, a portion of the revenue from the coal severance tax was allocated to the education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period fiscal 1987 through 1990.

Park Acquisition/Arts Protection Trust

During most of the last 15 years, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980's, the flow of revenue into this account was diverted to the general

fund. However, the principal began to grow again in fiscal 1990. Prior to fiscal 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks and one-third was allocated for protection of works of art in the state capitol and other cultural and aesthetics projects.

The 1991 Legislature split the principal of this trust into two separate trusts: a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. HB687, passed during the 1993 legislative session, continues this practice for the 1995 biennium, directing \$1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation will again be deposited in the trust.

In fiscal 1992, 0.6335 percent of coal severance tax revenues was deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and cultural projects. During the January 1992 special session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in fiscal 1993 to fund the operations of the Montana Arts Council. Beginning in fiscal 1994, these revenues will again be deposited in the trust.

Noxious Weed Management Trust

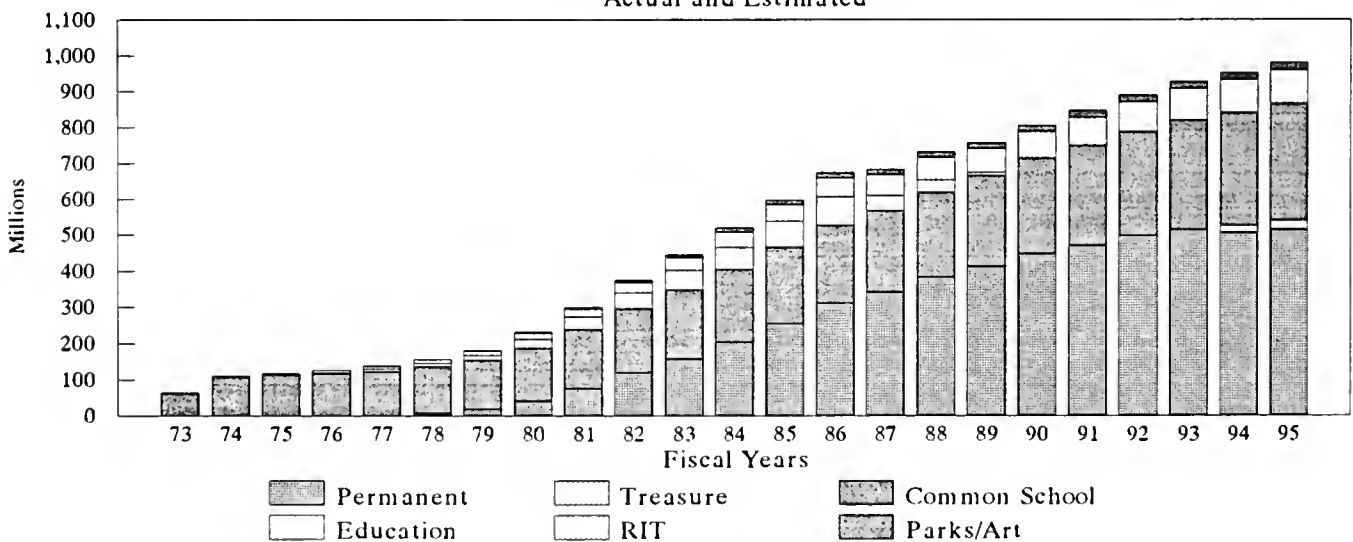
During the period fiscal 1986 through 1992, at least one-half of the collections from a 1.0 percent surcharge on the retail sale of herbicides was deposited in the Noxious Weed Management Trust. The remaining collections are spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached \$2.5 million in fiscal 1992, all herbicide surcharge collections and the interest earned on the trust were available for weed control grants.

TRUST FUNDS--INTEREST AND BALANCES

Trust Fund Balances Actual and Estimated

Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks Acquisition Trust Fund	Arts Protection Trust Fund	Noxious Weed Trust Fund	Total Trust Funds
A 73	\$0	\$0	\$64,223,773	\$0	\$0	\$0	\$0	\$0	\$64,223,773
A 74	0	0	108,998,870	0	1,141,385	0	0	0	110,140,255
A 75	0	0	113,064,188	0	3,287,456	0	0	0	116,351,644
A 76	0	0	117,849,628	2,227,793	5,552,291	278,725	0	0	125,908,437
A 77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	138,311,613
A 78	6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	157,022,479
A 79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	181,046,763
A 80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	231,167,756
A 81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	298,466,395
A 82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	374,952,020
A 83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	446,078,064
A 84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	519,732,323
A 85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	598,941,350
A 86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	443,184	676,528,854
A 87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	685,961,467
A 88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	733,808,005
A 89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	759,213,324
A 90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	807,444,467
A 91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	848,978,593
A 92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	7,051,506	2,584,254	892,933,196
F 93	515,601,996	0	304,286,871	0	87,312,059	12,588,366	7,195,655	2,500,000	929,484,947
F 94	505,601,996	19,386,962	316,689,818	0	89,837,642	12,588,366	7,442,390	2,500,000	954,047,174
F 95	514,988,958	24,123,997	327,789,818	0	92,415,623	12,588,366	7,688,961	2,500,000	982,095,722

History of Trust Fund Balances Actual and Estimated



EXPENDITURE LIMITATION

1995 Budget Below Limit

The budget for the 1995 biennium is 6.7 percent or \$192.7 million below the statutory expenditure limit. The growth in anticipated state spending between the 1993 and 1995 biennia will be less than the growth in personal income during the last three years.

Calculation of Limit

Section 17-8-106, MCA, limits the increase in biennial appropriations from the general fund, state special revenue, and the cash portion of the capital projects fund to the growth in Montana's personal income. The following types of appropriations are not subject to the limit:

- 1) money received from the federal government;
- 2) payments on bonded indebtedness;
- 3) money paid for unemployment or disability benefits;
- 4) money received from the sale of goods or services;
- 5) money paid from permanent endowments, constitutional trusts, or pension funds;
- 6) proceeds from gifts or bequests;

7) money appropriated for tax relief; and

8) funds transferred within state government or purchases of goods for resale.

Three calculations, shown in Table 1, are required to determine the expenditure limit:

Step #1 - Determine the base appropriation level for the general fund, state special revenue accounts, and the cash portion of the capital projects fund, excluding the items listed above.

Step #2 - Determine the growth in personal income for the three years preceding the current biennium (1988, 1989, and 1990) and the three years preceding the next biennium (1990, 1991, and 1992). The growth in Montana's personal income between these two periods is 12.58 percent.

Step #3 - Multiply the 1993 biennium base by the growth in personal income to establish the expenditure limitation. Determine the appropriations passed by the 1993 legislature for the 1995 biennium. Subtract the base 1995 biennium from the 1995 biennium expenditure limit. This difference is \$192.7 million.

Table 1 shows the figures used to calculate the spending limitation for the 1995 biennium.

EXPENDITURE LIMITATION

Table 1
Expenditure Limitation, 1995 biennium
(in Millions)

Table 1 Expenditure Limitation, 1995 biennium (in Millions)				
Step #1		Base Appropriations, 1993 Biennium		
Appropriations		\$ 2,694.7		
Supplementals		36.2		
Exclusions		(171.3)		
Base Appropriations		2,559.6		
Step #2		Personal Income Growth		
<u>Year</u>	<u>Personal Income</u>	<u>3-yr Average</u>	<u>Percent Growth</u>	
1988	\$10.299215			
1989	11.306427			
1990	11.708850	\$11.104831		
1991	12.672947			
1992	13.122043	12.501280	12.58%	
Step #3		Appropriations, 1995 Biennium		
Expenditure Limitation		2,881.6		
Legislative Appropriations*		2,992.1		
Exclusions		(303.2)		
Net Appropriations		2,688.9		
Expenditure Limit Balance		192.7		
* Includes estimated state special revenue statutory appropriations.				

AGENCY BUDGET COMPARISONS BY FUND TYPE

General Fund

As defined in section 17-7-102, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund is used to fund the general operations of state government.

The following table shows the House Bill 2 general fund appropriations for all state agencies for fiscal 1994 and fiscal 1995. General fund appropriations in House Bill 2 comprise 81.0 percent of anticipated general fund disbursements for the 1995 biennium.

The table also shows the LFA current level for the 1995 biennium, statutorily defined as "the level of funding required to maintain services at the level authorized by the previous legislature, after adjustments for inflation". The 1993 Legislature made several significant policy and program changes, resulting in general fund appropriations for state agencies that are \$87.2 million less than the LFA current level. The major reductions are:

1) \$22.4 million in the six university units. The legislature used fiscal 1992 expenditures (with adjustments) as the basis for the 1995 biennium appropriation, rather than the enrollment-driven formula used by previous legislatures. Further details concerning legislative action regarding the Montana University System are provided in pages E-59 through E-69.

2) \$24.5 million in funding switches, in which other funds were substituted for general fund, leaving the agency's total spending authority unchanged. These funding switches are discussed in the "1995 Biennium Budget Overview" and in the narratives for affected agencies.

3) \$14.5 million in the Department of Social and Rehabilitation Services (SRS). The legislature eliminated state support for general assistance and the state medical program, for a \$10.6 million savings. In addition, the legislature enacted numerous cost

containment measures in medicaid and welfare programs, discussed in the SRS narrative (Section B).

4) \$8.7 million in the Department of Corrections and Human Services, due to the closure of nursing and acute care services at Galen, a reorganization designed to substantially reduce the number of inmates in corrections facilities and increase the number in community programs, and other changes in the department's operations. Of the \$11.3 million reduction shown in the table, \$2.6 million was due to funding switches. A complete discussion of legislative actions regarding DCHS appears on pages D-21 through D-42.

5) \$7.1 million in the Judiciary, primarily as a result of funding the district court reimbursement program with a statutory appropriation. While these funds will continue to be spent from the general fund, they are no longer appropriated in House Bill 2.

6) \$5.6 million in the Department of Family Services (DFS). The elimination of funding for inpatient hospital psychiatric benefits for youth is estimated to save a net \$7.2 million general fund during the 1995 biennium. The legislature also adopted the executive estimate of foster care costs, which was \$1.0 million less than the LFA current level. These reductions were partially offset by budget modifications.

While the 1995 biennium general fund budget for state agencies adopted in House Bill 2 is \$87.2 million less than the LFA current level, it is \$20.1 million higher than appropriated in House Bill 2 (as amended during the two special sessions) for the 1993 biennium. Growth in human service programs accounts for most of this increase. The House Bill 2 general fund appropriations in SRS and DFS grew by \$60.0 million between the two biennia. While the general fund budgets of most state agencies remain constant or decrease from the 1993 to the 1995 biennium, the continuing growth in human service programs more than offsets these reductions.

The narrative for each agency contains a detailed discussion of the general fund budgets approved by the 1993 Legislature.

AGENCY BUDGET COMPARISONS BY FUND TYPE

General Fund Comparison LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA		HB 2		LFA		HB 2 Over (Under) LFA
		Current Level Fiscal 1994	Current Level Fiscal 1995	Fiscal 1994	Fiscal 1995	Current Level Fiscal 94-95	HB 2 Fiscal 94-95	
1101	Legislative Auditor	\$1,307,219	\$1,291,061	\$1,300,287	\$1,284,606	\$2,598,280	\$2,584,893	(\$13,387)
1102	Legislative Fiscal Analyst	866,403	863,760	821,249	847,304	1,730,163	1,668,553	(61,610)
1104	Legislative Council	2,654,033	2,294,085	1,977,721	2,135,744	4,948,118	4,113,465	(834,653)
1111	Environmental Quality Council	299,164	300,501	276,518	277,830	599,665	554,348	(45,317)
2110	Judiciary	8,927,539	9,118,909	5,512,612	5,421,534	18,046,448	10,934,146	(7,112,302)
3101	Governors Office	2,535,392	2,512,676	2,245,665	2,228,345	5,048,068	4,474,010	(574,058)
3201	Secretary Of States Office	928,346	937,174	53,893	67,921	1,865,520	121,814	(1,743,706)
3202	Commissioner Of Political Prac	127,202	123,975	124,310	121,426	251,177	245,736	(5,441)
3401	State Auditors Office	2,168,349	2,117,349	1,934,429	1,910,562	4,285,698	3,844,991	(440,707)
3501	Office Of Public Instruction	47,078,407	43,350,357	49,527,971	42,366,201	90,428,764	91,894,172	1,465,408
3511	Billings Vo Tech	1,160,487	1,140,355	1,214,510	1,194,378	2,300,842	2,408,888	108,046
3512	Butte Vo Tech	1,132,188	1,103,478	1,271,869	1,243,160	2,235,666	2,515,029	279,363
3513	Great Falls Vo Tech	1,447,084	1,424,227	1,698,658	1,675,801	2,871,311	3,374,459	503,148
3514	Helena Vo Tech	1,896,332	1,870,850	1,922,930	1,897,449	3,767,182	3,820,379	53,197
3515	Missoula Vo Tech	1,993,618	1,970,397	2,030,105	2,006,884	3,964,015	4,036,989	72,974
4107	Crime Control Division	472,162	476,502	458,663	462,951	948,664	921,614	(27,050)
4108	Highway Traffic Safety	210,000	210,000	180,701	180,696	420,000	361,397	(58,603)
4110	Department Of Justice	13,463,695	13,430,918	12,877,618	9,631,325	26,894,613	22,508,943	(4,385,670)
4201	Public Service Regulation	2,181,463	2,163,649	0	0	4,345,112	0	(4,345,112)
5101	Board Of Public Education	115,601	113,667	107,559	105,438	229,268	212,997	(16,271)
5102	Commissioner Of Higher Ed	11,524,860	11,429,765	10,761,295	10,510,588	22,954,625	21,271,883	(1,682,742)
5103	University Of Montana	29,526,530	29,562,756	25,305,945	25,342,171	59,089,286	50,648,116	(8,441,170)
5104	Montana State University	35,407,705	35,497,474	30,985,467	31,075,236	70,905,179	62,060,703	(8,844,476)
5105	Mont College Of Min Sc & Tech	9,449,261	9,056,191	8,516,676	8,507,278	18,505,452	17,023,954	(1,481,498)
5106	Eastern Montana College	10,699,997	10,688,888	9,679,183	9,668,074	21,388,885	19,347,257	(2,041,628)
5107	Northern Montana College	5,949,753	5,922,078	5,452,942	5,425,267	11,871,831	10,878,209	(993,622)
5108	Western Montana College	3,615,048	3,592,477	3,282,955	3,260,385	7,207,525	6,543,340	(664,185)
5109	Agricultural Exper Station	7,917,607	7,952,147	7,226,947	7,263,780	15,869,754	14,490,727	(1,379,027)
5110	Cooperative Extension Service	2,776,333	2,778,794	2,786,119	2,788,897	5,555,127	5,575,016	19,889
5111	Forestry & Cons Exper Station	698,643	700,182	702,762	702,782	1,398,825	1,405,544	6,719
5113	School For The Deaf & Blind	2,828,728	2,797,695	2,489,345	2,475,990	5,626,423	4,965,335	(661,088)
5114	Montana Arts Council	132,922	129,952	128,825	123,903	262,874	252,728	(10,146)
5115	Library Commission	1,262,970	1,065,295	1,288,607	1,019,897	2,328,265	2,308,504	(19,761)
5117	Historical Society	1,405,047	1,385,741	1,351,639	1,332,534	2,790,788	2,684,173	(106,615)
5119	Fire Services Training School	259,375	237,286	251,466	230,853	496,661	482,319	(14,342)
5201	Dept Of Fish, Wildlife & Parks	423,055	423,055	311,105	315,937	846,110	627,042	(219,068)
5301	Dept Health & Environ Sciences	3,282,665	3,333,718	3,006,290	2,993,621	6,616,383	5,999,911	(616,472)
5401	Department Of Transportation	230,878	230,811	131,072	31,689	461,689	162,761	(298,928)
5501	Department Of State Lands	9,366,447	9,333,646	8,375,187	8,337,958	18,700,093	16,713,145	(1,986,948)
5603	Department Of Livestock	571,650	576,859	452,026	443,632	1,148,509	895,658	(252,851)
5706	Dept Nat Resource/Conservation	5,202,795	5,172,850	3,330,062	3,322,275	10,375,645	6,652,337	(3,723,308)
5801	Department Of Revenue	21,759,005	21,661,049	20,670,750	20,358,651	43,420,054	41,029,401	(2,390,653)
6101	Department Of Administration	3,527,264	3,493,474	3,921,002	3,785,413	7,020,738	7,706,415	685,677
6201	Department Of Agriculture	991,105	951,362	530,005	458,724	1,942,467	988,729	(953,738)
6401	Dept. Corrections & Human Ser	81,504,471	83,197,295	76,218,335	77,169,376	164,701,766	153,387,711	(11,314,055)
6501	Department Of Commerce	2,714,344	2,727,274	1,529,947	1,529,587	5,441,618	3,059,534	(2,382,084)
6602	Labor & Industry	712,925	684,044	811,109	780,864	1,396,969	1,591,973	195,004
6701	Adjutant General	2,158,344	2,163,301	1,992,522	1,991,110	4,321,645	3,983,632	(338,013)
6901	Dept Social & Rehab Services	124,513,490	136,082,495	116,235,896	129,892,185	260,595,985	246,128,081	(14,467,904)
6911	Department Of Family Services	37,059,517	38,379,721	37,318,512	32,483,300	75,439,238	69,801,812	(5,637,426)
Totals		\$508,437,418	\$518,021,565	\$470,581,261	\$468,681,512	\$1,026,458,983	\$939,262,773	(\$87,196,210)

AGENCY BUDGET COMPARISONS BY FUND TYPE

State Special Revenue Fund

The state special revenue fund "consists of money from state and other nonfederal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government." The following table shows the state special revenue funds appropriated in House Bill 2 for the 1995 biennium. In addition to the House Bill 2 appropriations, substantial amounts of state special revenue are spent through statutory appropriations and appropriations in other bills. For example, over \$800 million will be distributed during the 1995 biennium from the state's largest state special revenue account (the school equalization aid account) to local school districts for support of K-12 education. Because these funds are statutorily appropriated, they are not included in the House Bill 2 appropriations shown in the table.

The 1993 Legislature approved state special revenue fund appropriations that are \$95.5 million above the LFA current level. The major increases are:

1) \$35.8 million in the Department of Transportation. The legislature increased the gas and diesel fuel tax by \$37.3 million during the 1995 biennium. The increased revenues will be used to fund \$22.4 million in new and expanded construction and maintenance programs and \$5.5 million in increased distributions to local governments.

2) over \$20 million due to funding switches. The legislature enacted legislation reallocating more than \$11 million of taxes and fees from the general fund to state special revenue accounts. The revenue in these accounts will be used to fund programs that were supported by the general fund, such as the Public Service Commission, plant industry programs in the Department of Agriculture, and operations and start-up costs of the Montana Veterans' Homes. The legislature also diverted \$2.3 million of revenue from the Resource Indemnity Trust (RIT) to fund programs that had previously been supported with general fund. Lastly, the legislature funded \$5.4 million of the Motor Vehicle Division from the state special highways account, reducing general fund costs.

3) \$12.8 million in the Department of Health and Environmental Sciences. The 1993 Legislature passed several bills increasing or creating new fees for air quality, water quality, and hazardous waste permits, the proceeds of which are deposited in state special revenue accounts. The increased fee revenue is appropriated in House Bill 2, along with other budget modifications funded with existing fees.

State special revenue appropriations in House Bill 2 for the 1995 biennium are \$121.5 million (22 percent) higher than appropriated in House Bill 2 for the 1993 biennium after the two special sessions.

AGENCY BUDGET COMPARISONS BY FUND TYPE

State Special Revenue Fund Comparison LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA		HB 2		LFA		HB 2 Over (Under) LFA
		Current Level Fiscal 1994	Current Level Fiscal 1995	Fiscal 1994	Fiscal 1995	Current Level Fiscal 94-95	Fiscal 94-95	
1101	Legislative Auditor	\$1,416,152	\$1,398,650	\$1,417,533	\$1,398,833	\$2,814,802	\$2,816,366	\$1,564
1104	Legislative Council	896,713	417,751	917,104	442,751	1,314,464	1,359,855	45,391
1111	Environmental Quality Council	27,256	0	27,256	0	27,256	27,256	0
1112	Consumer Counsel	947,897	948,841	1,002,125	1,002,911	1,896,738	2,005,036	108,298
2110	Judiciary	525,889	520,823	519,397	514,327	1,046,712	1,033,724	(12,988)
3101	Governors Office	65,500	65,500	739,297	244,627	131,000	983,924	852,924
3201	Secretary Of States Office	197,208	195,547	0	0	392,755	0	(392,755)
3401	State Auditors Office	870,704	821,274	1,151,297	1,053,799	1,691,978	2,205,096	513,118
3501	Office Of Public Instruction	4,220,157	4,229,937	4,703,010	4,337,052	8,450,094	9,040,062	589,968
3511	Billings Vo Tech	327,741	333,717	327,741	333,717	661,458	661,458	0
3512	Butte Vo Tech	81,383	82,733	81,383	82,733	164,116	164,116	0
3513	Great Falls Vo Tech	156,776	159,538	156,776	159,538	316,314	316,314	0
3514	Helena Vo Tech	114,499	116,514	114,499	116,514	231,013	231,013	0
3515	Missoula Vo Tech	211,601	215,498	211,601	215,498	427,099	427,099	0
4107	Crime Control Division	571,903	571,903	623,108	623,274	1,143,806	1,246,382	102,576
4108	Highway Traffic Safety	385,124	386,189	381,946	382,991	771,313	764,937	(6,376)
4110	Department Of Justice	15,430,237	15,367,206	16,230,476	19,253,591	30,797,443	35,484,067	4,686,624
4201	Public Service Regulation	0	0	2,342,283	2,024,202	0	4,366,485	4,366,485
5101	Board Of Public Education	85,576	83,311	85,070	82,934	168,887	168,004	(883)
5103	University Of Montana	4,495,027	4,512,622	4,495,027	4,512,622	9,007,649	9,007,649	0
5104	Montana State University	4,499,293	4,516,905	4,499,293	4,516,905	9,016,198	9,016,198	0
5105	Mont College Of Min Sc & Tech	780,775	783,831	1,446,775	1,449,831	1,564,606	2,896,606	1,332,000
5106	Eastern Montana College	1,488,071	1,493,896	1,488,071	1,493,896	2,981,967	2,981,967	0
5107	Northern Montana College	793,101	796,205	793,101	796,205	1,589,306	1,589,306	0
5108	Western Montana College	461,733	463,541	461,733	463,541	925,274	925,274	0
5113	School For The Deaf & Blind	199,000	207,000	452,574	460,479	406,000	913,053	507,053
5114	Montana Arts Council	160,504	159,127	321,173	213,667	319,631	534,840	215,209
5115	Library Commission	396,866	396,977	610,209	498,930	793,843	1,109,139	315,296
5117	Historical Society	100,434	100,750	101,384	101,639	201,184	203,023	1,839
5201	Dept Of Fish, Wildlife & Parks	22,608,525	20,987,764	25,921,761	24,117,068	43,596,289	50,038,829	6,442,540
5301	Dept Health & Environ Sciences	7,643,890	7,916,526	14,319,839	14,023,772	15,560,416	28,343,611	12,783,195
5401	Department Of Transportation	147,174,455	148,945,124	165,164,612	166,707,615	296,119,579	331,872,227	35,752,648
5501	Department Of State Lands	5,254,953	4,537,312	9,011,872	5,358,279	9,792,265	14,370,151	4,577,886
5603	Department Of Livestock	4,236,978	4,239,255	4,710,818	4,795,946	8,476,233	9,506,764	1,030,531
5706	Dept Nat Resource/Conservation	6,728,979	6,705,390	11,304,543	8,505,584	13,434,369	19,810,127	6,375,758
5801	Department Of Revenue	562,472	557,967	658,542	668,949	1,120,439	1,327,491	207,052
6101	Department Of Administration	746,128	747,856	1,969,355	1,949,161	1,493,984	3,918,516	2,424,532
6201	Department Of Agriculture	5,002,641	5,081,609	6,797,521	5,995,716	10,084,250	12,793,237	2,708,987
6401	Dept. Corrections & Human Ser	4,548,491	4,687,491	6,179,243	6,691,175	9,235,982	12,870,418	3,634,436
6501	Department Of Commerce	14,934,239	15,177,146	18,177,602	16,567,519	30,111,385	34,745,121	4,633,736
6602	Labor & Industry	9,981,885	9,670,018	13,236,016	10,811,450	19,651,903	24,047,466	4,395,563
6701	Adjutant General	24,094	20,584	46,971	43,496	44,678	90,467	45,789
6901	Dept Social & Rehab Services	16,452,695	16,661,257	15,043,964	15,339,376	33,113,952	30,383,340	(2,730,612)
6911	Department Of Family Services	3,032,911	3,047,105	3,016,873	3,046,031	6,080,016	6,062,904	(17,112)
Totals		\$288,840,456	\$288,328,190	\$341,260,774	\$331,398,144	\$577,168,646	\$672,658,918	\$95,490,272

AGENCY BUDGET COMPARISONS BY FUND TYPE

Federal Funds

The federal special revenue fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government." The following table shows the federal funds appropriated in House Bill 2 for the 1995 biennium. Spending authority for additional federal funds is provided in other appropriation bills, statutory appropriations, and through the budget amendment process during the biennium.

As the table shows, the 1993 Legislature approved the expenditure of \$52.6 million more federal funds than the LFA current level. While federal spending in SRS was reduced \$20.4 million as a result of elimination of inpatient hospital psychiatric services for youth and other cost containment measures in human service programs, increases in the following areas more than offset this decrease:

1) \$15.9 million in the Department of Health and Environmental Sciences. The legislature approved the department's request to spend \$6.8 million in federal funds for new or expanded programs. In

addition, the department anticipates receiving \$9.1 million additional federal funds to support existing programs, such as Solid and Hazardous Waste, Water Quality, and Preventive Health.

2) \$12.0 million in the Department of Natural Resources and Conservation. Most of this increase is due to legislative approval of federal funds to repair the Tongue River dam.

3) \$11.0 million in the Department of Commerce, due mainly to implementation of the Home Investment Partnership Program (HOME) and continuation of the Comprehensive Housing Affordability Strategy (CHAS) plan, which was initially authorized by budget amendment during the 1993 biennium.

Federal fund appropriations in House Bill 2 for the 1995 biennium are \$194.6 million (16.1 percent) higher than in the 1993 biennium (after the two special sessions). The chief areas of growth in federal spending between the two biennia are in human service programs, highways, and environmental programs.

AGENCY BUDGET COMPARISONS BY FUND TYPE

Federal Special Fund Comparison LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
3101	Governors Office	\$489,074	\$492,158	\$489,406	\$492,494	\$981,232	\$981,900	\$668
3501	Office Of Public Instruction	15,420,959	3,576,306	16,689,989	4,727,034	18,997,265	21,417,023	2,419,758
4107	Crime Control Division	3,526,308	3,526,308	3,799,028	3,799,027	7,052,616	7,598,055	545,439
4108	Highway Traffic Safety	1,308,397	1,306,686	1,308,397	1,306,686	2,615,083	2,615,083	0
4110	Department Of Justice	889,257	888,822	1,478,511	1,475,761	1,778,079	2,954,272	1,176,193
4201	Public Service Regulation	29,727	28,168	29,727	28,168	57,895	57,895	0
5102	Commissioner Of Higher Ed	7,876,820	7,878,590	9,490,665	9,606,290	15,755,410	19,096,955	3,341,545
5113	School For The Deaf & Blind	81,968	81,968	106,823	106,823	163,936	213,646	49,710
5114	Montana Arts Council	517,600	517,600	950,349	251,912	1,035,200	1,202,261	167,061
5115	Library Commission	1,546,584	386,584	2,354,184	394,184	1,933,168	2,748,368	815,200
5116	Montana Council On Vocational	157,177	158,160	165,257	165,781	315,337	331,038	15,701
5117	Historical Society	662,670	652,453	712,692	702,475	1,315,123	1,415,167	100,044
5201	Dept Of Fish, Wildlife & Parks	7,785,443	7,488,432	10,970,427	9,638,009	15,273,875	20,608,436	5,334,561
5301	Dept Health & Environ Sciences	32,757,478	34,930,083	40,530,372	43,103,917	67,687,561	83,634,289	15,946,728
5401	Department Of Transportation	161,813,061	163,296,696	163,606,763	164,736,066	325,109,757	328,342,829	3,233,072
5501	Department Of State Lands	4,246,302	4,265,120	6,884,887	6,898,763	8,511,422	13,783,650	5,272,228
5603	Department Of Livestock	314,017	317,180	357,948	361,275	631,197	719,223	88,026
5706	Dept Nat Resource/Conservation	1,143,082	1,146,312	13,125,544	1,211,078	2,289,394	14,336,622	12,047,228
5801	Department Of Revenue	329,536	331,224	197,954	193,865	660,760	391,819	(268,941)
6101	Department Of Administration	0	0	30,057	30,058	0	60,115	60,115
6201	Department Of Agriculture	375,567	375,833	595,714	521,013	751,400	1,116,727	365,327
6401	Dept. Corrections & Human Ser	4,774,915	4,842,821	6,098,024	6,024,565	9,617,736	12,122,589	2,504,853
6501	Department Of Commerce	25,067,405	25,573,405	30,580,413	31,037,629	50,640,810	61,618,042	10,977,232
6602	Labor & Industry	26,885,905	27,211,591	27,928,763	26,846,759	54,097,496	54,775,522	678,026
6701	Adjutant General	3,871,365	3,899,146	4,683,658	4,612,169	7,770,511	9,295,827	1,525,316
6901	Dept Social & Rehab Services	346,528,265	370,639,079	338,561,604	358,187,633	717,167,344	696,749,237	(20,418,107)
6911	Department Of Family Services	17,593,440	17,638,173	21,962,270	19,898,432	35,231,613	41,860,702	6,629,089
Totals		\$665,992,322	\$681,448,898	\$703,689,426	\$696,357,866	\$1,347,441,220	\$1,400,047,292	\$52,606,072

AGENCY BUDGET COMPARISONS BY FUND TYPE

Proprietary Funds

Proprietary funds include two types of accounts:

1) enterprise funds "which account for operations that are financed whenever the intent of the legislature is that costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges"; and

2) internal service funds "which account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursed basis."

The following table shows the appropriations from proprietary funds for the 1995 biennium included in House Bill 2. Spending authority for additional proprietary funds is provided in miscellaneous appropriation bills described in the agency narratives, statutory appropriations, and through the budget amendment process during the interim.

As the table shows, the legislature approved proprietary fund expenditures for the 1995 biennium that are \$24.5 million higher than the LFA current level. The chief areas of increase are:

1) \$7.0 million in the Department of Administration for new and expanded operations in the programs that provide services to other state agencies, such as the Procurement and Printing Division, the

Information Services Division, and the Mail and Distribution Bureau.

2) \$6.3 million in the State Fund, chiefly for program expansions designed to improve delivery and control costs of workers' compensation benefits.

3) \$2.5 million in the Department of Labor and Industry, due mainly to a change in the method of appropriating the uninsured employers and subsequent injury funds. In previous biennia, money in these funds was appropriated in language, but not included in the totals in House Bill 2. The 1993 Legislature included the appropriations in the House Bill 2 totals for the 1995 biennium but also passed legislation (House Bill 287), which statutorily appropriates these funds beginning in fiscal 1994.

4) \$2.4 million in the Secretary of State's Office. The 1993 Legislature made a major change in funding for this office. Beginning in fiscal 1994, fees for services provided by the office will be deposited in a proprietary account, rather than in the general fund, and most of the support for the office is appropriated from the proprietary fund.

Proprietary fund appropriations in House Bill 2 for the 1993 biennium were \$441.0 million. The 1995 biennium appropriations in House Bill 2 are \$131.1 million (29.7 percent) higher. Most of the increase (\$97.5 million) is in workers' compensation benefits paid by the State Fund. With the passage and approval of House Bill 13, these benefits (and the administrative expenses of the State Fund) are statutorily appropriated during the 1995 biennium.

AGENCY BUDGET COMPARISONS BY FUND TYPE

Proprietary Fund Comparison LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level	LFA Current Level	HB 2	HB 2	LFA Current Level	HB 2	HB 2
		Fiscal 1994	Fiscal 1995	Fiscal 1994	Fiscal 1995	Fiscal 94-95	Fiscal 94-95	Over (Under) LFA
3201	Secretary Of States Office	\$349,299	\$347,961	\$1,602,889	\$1,451,323	\$697,260	\$3,054,212	\$2,356,952
3401	State Auditors Office	160,409	159,292	194,438	193,302	319,701	387,740	68,039
3501	Office Of Public Instruction	1,011,954	1,006,836	1,097,357	1,084,112	2,018,790	2,181,469	162,679
4110	Department Of Justice	617,545	624,376	950,071	949,785	1,241,921	1,899,856	657,935
5102	Commissioner Of Higher Ed	17,976,875	19,844,204	18,119,770	19,992,080	37,821,079	38,111,850	290,771
5117	Historical Society	557,575	562,292	579,799	585,497	1,119,867	1,165,296	45,429
5201	Dept Of Fish, Wildlife & Parks	2,204,167	2,283,820	2,308,709	2,416,821	4,487,987	4,725,530	237,543
5301	Dept Health & Environ Sciences	1,928,871	1,880,024	2,408,650	2,310,214	3,808,895	4,718,864	909,969
5401	Department Of Transportation	15,224,457	15,298,914	16,802,808	16,183,175	30,523,371	32,985,983	2,462,612
5501	Department Of State Lands	371,354	379,692	456,243	501,238	751,046	957,481	206,435
5801	Department Of Revenue	1,328,919	1,287,629	969,194	941,744	2,616,548	1,910,938	(705,610)
6101	Department Of Administration	37,852,529	37,650,299	41,541,837	40,964,800	75,502,828	82,506,637	7,003,809
6103	State Comp. Mutual Ins. Fund	165,125,394	179,773,606	168,398,081	182,807,255	344,899,000	351,205,336	6,306,336
6201	Department Of Agriculture	7,810	8,237	223,438	221,853	16,047	445,291	429,244
6401	Dept. Corrections & Human Ser	3,710,061	3,940,327	3,771,818	4,183,673	7,650,388	7,955,491	305,103
6501	Department Of Commerce	13,630,636	12,985,829	14,354,705	13,541,156	26,616,465	27,895,861	1,279,396
6602	Labor & Industry	3,790,216	3,720,351	4,937,388	5,049,771	7,510,567	9,987,159	2,476,592
Totals		\$265,848,071	\$281,753,689	\$278,717,195	\$293,377,799	\$547,601,760	\$572,094,994	\$24,493,234

AGENCY BUDGET COMPARISONS BY FUND TYPE

Other Funds

The following tables show the appropriations in House Bill 2 for the 1995 biennium from several smaller funds in the state treasury.

The capital projects fund "accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds". As the table below shows, the only appropriation in House Bill 2 from this fund is to the Department of Administration (DofA) for maintenance of part of the capitol complex. Historically, the legislature has included the transfer of funds to the DofA for this maintenance as an expenditure item. However, it has been difficult to ensure that the correct amount is appropriated.

Consequently, the legislature adopted language that appropriates the amount of the transfer necessary in the 1995 biennium, resulting in a biennial reduction of \$1.5 million. Most of the money from the capital projects fund is appropriated in House Bill 5 (the long-range building bill) or in language and statutory appropriations.

Expendable and non-expendable trusts are in the fiduciary fund category, which is "used to account for assets held by state government in a trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds." Most expenditures from these funds are authorized by statutory appropriations. Details on the House Bill 2 appropriations shown in the tables below are provided in the narratives for each of the listed agencies.

Capital Projects Fund Comparison

LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
6101	Department Of Administration	\$804,929	\$806,657	\$58,305	\$58,312	\$1,611,586	\$116,617	(\$1,494,969)
Totals		\$804,929	\$806,657	\$58,305	\$58,312	\$1,611,586	\$116,617	(\$1,494,969)

Expendable Trust Fund Comparison

LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
5706	Dept Nat Resource/Conservation	\$400,000	\$0	\$397,569	\$0	\$400,000	\$397,569	(\$2,431)
6101	Department Of Administration	0	0	12,067	11,633	0	23,700	23,700
6201	Department Of Agriculture	289,963	287,867	65,846	63,903	577,830	129,749	(448,081)
Totals		\$689,963	\$287,867	\$475,482	\$75,536	\$977,830	\$551,018	(\$426,812)

Non-Expendable Trust Fund Comparison

LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
6104	Public Employees Retirement Bd	\$1,110,978	\$1,082,572	\$1,183,270	\$1,110,389	\$2,193,550	\$2,293,659	\$100,109
6105	Teachers Retirement Board	677,757	641,274	670,239	627,711	1,319,031	1,297,950	(21,081)
Totals		\$1,788,735	\$1,723,846	\$1,853,509	\$1,738,100	\$3,512,581	\$3,591,609	\$79,028

AGENCY BUDGETS BY FUND TYPE

Current Unrestricted Fund

The current unrestricted fund is used by the Montana University System to account for money deposited in the state treasury "that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature."

In House Bill 2, appropriations from the current unrestricted fund include anticipated tuition and fees collections at the six units and vocational-technical centers; sales revenue earned at the Agricultural Experiment Station, Cooperative Extension Service, and Bureau of Mines; and other income such as federal revenue. House Bill 2 appropriations for the 1995

biennium from this fund are \$11.9 million higher than the LFA current level due mainly to increased tuition budgeted by the legislature.

The 1995 biennium appropriations in House Bill 2 are \$15.1 million higher than in the 1993 biennium primarily due to increased tuition caused by: 1) tuition increases approved by the Board of Regents for fiscal 1993 and anticipated by the legislature for fiscal 1994 and fiscal 1995; 2) higher enrollments; and 3) a change in the mixture of in-state and out-of-state students. During the 1993 biennium, revenue from the six-mill levy and vocational-technical county levy were included in the current unrestricted fund. For the 1995 biennium, they are budgeted in the state special revenue fund.

Current Unrestricted Fund Comparison
LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
3511	Billings Vo Tech	\$460,527	\$460,527	\$469,315	\$469,315	\$921,054	\$938,630	\$17,576
3512	Butte Vo Tech	340,013	340,013	346,566	346,566	680,026	693,132	13,106
3513	Great Falls Vo Tech	671,241	671,241	684,163	684,163	1,342,482	1,368,326	25,844
3514	Helena Vo Tech	595,349	595,349	606,615	606,615	1,190,698	1,213,230	22,532
3515	Missoula Vo Tech	608,502	608,502	620,064	620,064	1,217,004	1,240,128	23,124
5103	University Of Montana	18,598,286	18,598,286	22,052,811	22,052,811	37,196,572	44,105,622	6,909,050
5104	Montana State University	17,867,942	17,867,942	19,922,177	19,922,177	35,735,884	39,844,354	4,108,470
5105	Mont College Of Min Sc & Tech	2,954,450	3,337,021	3,186,449	3,186,449	6,291,471	6,372,898	81,427
5106	Eastern Montana College	5,083,994	5,083,994	5,179,754	5,179,754	10,167,988	10,359,508	191,520
5107	Northern Montana College	2,505,113	2,505,113	2,650,914	2,650,914	5,010,226	5,301,828	291,602
5108	Western Montana College	1,463,291	1,463,291	1,522,544	1,522,544	2,926,582	3,045,088	118,506
5109	Agricultural Exper Station	2,727,992	2,728,267	2,790,544	2,792,758	5,456,259	5,583,302	127,043
5110	Cooperative Extension Service	2,161,652	2,161,652	2,161,652	2,161,652	4,323,304	4,323,304	0
Totals		\$56,038,352	\$56,421,198	\$62,193,568	\$62,195,782	\$112,459,550	\$124,389,350	\$11,929,800

AGENCY BUDGETS BY FUND TYPE

Total Funds

The following table shows the \$3.7 billion total appropriation made to state agencies for the 1995 biennium in House Bill 2. While House Bill 2 is the general appropriations act for state agencies, another \$1.7 billion will be spent from the state treasury during the biennium through spending authority granted in

statutory appropriations, miscellaneous appropriation bills, language appropriations, and budget amendments.

As the table shows, the legislature approved budgets that were \$95.5 million or 3.6 percent more than the LFA current level. The total appropriations in House Bill 2 for the 1995 biennium are \$476.6 million or 14.7 percent higher than for the 1993 biennium.

All Budgeted Funds Comparison
LFA Current Level Versus House Bill 2

Agcy Code	Agency Name	LFA Current Level Fiscal 1994	LFA Current Level Fiscal 1995	HB 2 Fiscal 1994	HB 2 Fiscal 1995	LFA Current Level Fiscal 94-95	HB 2 Fiscal 94-95	HB 2 Over (Under) LFA
1101	Legislative Auditor	\$2,723,371	\$2,689,711	\$2,717,820	\$2,683,439	\$5,413,082	\$5,401,259	(\$11,823)
1102	Legislative Fiscal Analyst	866,403	863,760	821,249	847,304	1,730,163	1,668,553	(61,610)
1104	Legislative Council	3,550,746	2,711,836	2,894,825	2,578,495	6,262,582	5,473,320	(789,262)
1111	Environmental Quality Council	326,420	300,501	303,774	277,830	626,921	581,604	(45,317)
1112	Consumer Counsel	947,897	948,841	1,002,125	1,002,911	1,896,738	2,005,036	108,298
2110	Judiciary	9,453,428	9,639,732	6,032,009	5,935,861	19,093,160	11,967,870	(7,125,290)
3101	Governors Office	3,089,966	3,070,334	3,474,368	2,965,466	6,160,300	6,439,834	279,534
3201	Secretary Of States Office	1,474,853	1,480,682	1,656,782	1,519,244	2,955,535	3,176,026	220,491
3202	Commissioner Of Political Prac	127,202	123,975	124,310	121,426	251,177	245,736	(5,441)
3401	State Auditors Office	3,199,462	3,097,915	3,280,164	3,157,663	6,297,377	6,437,827	140,450
3501	Office Of Public Instruction	67,731,477	52,163,436	72,018,327	52,514,399	119,894,913	124,532,726	4,637,813
3511	Billings Vo Tech	1,948,755	1,934,599	2,011,566	1,997,410	3,883,354	4,008,976	125,622
3512	Butte Vo Tech	1,553,584	1,526,224	1,699,818	1,672,459	3,079,808	3,372,277	292,469
3513	Great Falls Vo Tech	2,275,101	2,255,006	2,539,597	2,519,502	4,530,107	5,059,099	528,992
3514	Helena Vo Tech	2,606,180	2,582,713	2,644,044	2,620,578	5,188,893	5,264,622	75,729
3515	Missoula Vo Tech	2,813,721	2,794,397	2,861,770	2,842,446	5,608,118	5,704,216	96,098
4107	Crime Control Division	4,570,373	4,574,713	4,880,799	4,885,252	9,145,086	9,766,051	620,965
4108	Highway Traffic Safety	1,903,521	1,902,875	1,871,044	1,870,373	3,806,396	3,741,417	(64,979)
4110	Department Of Justice	30,400,734	30,311,322	31,536,676	31,310,462	60,712,056	62,847,138	2,135,082
4201	Public Service Regulation	2,211,190	2,191,817	2,372,010	2,052,370	4,403,007	4,424,380	21,373
5101	Board Of Public Education	201,177	196,978	192,629	188,372	398,155	381,001	(17,154)
5102	Commissioner Of Higher Ed	37,378,555	39,152,559	38,371,730	40,108,958	76,531,114	78,480,688	1,949,574
5103	University Of Montana	52,619,843	52,673,664	51,853,783	51,907,604	105,293,507	103,761,387	(1,532,120)
5104	Montana State University	57,774,940	57,882,321	55,406,937	55,514,318	115,657,261	110,921,255	(4,736,006)
5105	Mont College Of Min Sc & Tech	13,184,486	13,177,043	13,149,900	13,143,558	26,361,529	26,293,458	(68,071)
5106	Eastern Montana College	17,272,062	17,266,778	16,347,008	16,341,724	34,538,840	32,688,732	(1,850,108)
5107	Northern Montana College	9,247,967	9,223,396	8,896,957	8,872,386	18,471,363	17,769,343	(702,020)
5108	Western Montana College	5,540,072	5,519,309	5,267,232	5,246,470	11,059,381	10,513,702	(545,679)
5109	Agricultural Exper Station	10,645,599	10,680,414	10,017,491	10,056,538	21,326,013	20,074,029	(1,251,984)
5110	Cooperative Extension Service	4,937,985	4,940,446	4,947,771	4,950,549	9,878,431	9,898,320	19,889
5111	Forestry & Cons Exper Station	698,643	700,182	702,762	702,782	1,398,825	1,405,544	6,719
5113	School For The Deaf & Blind	3,109,696	3,086,663	3,048,742	3,043,292	6,196,359	6,092,034	(104,325)
5114	Montana Arts Council	811,026	806,679	1,400,347	1,400,347	1,617,705	1,989,829	372,124
5115	Library Commission	3,206,420	1,848,856	4,253,000	1,913,011	5,055,276	6,166,011	1,110,735
5116	Montana Council On Vocational	157,177	158,160	165,257	165,781	315,337	331,038	15,701
5117	Historical Society	2,725,726	2,701,236	2,745,514	2,722,145	5,426,962	5,467,659	40,697
5119	Fire Services Training School	259,375	237,286	251,466	230,853	496,661	482,319	(14,342)
5201	Dept Of Fish, Wildlife & Parks	33,021,190	31,183,071	39,512,002	36,487,835	64,204,261	75,999,837	11,795,576
5301	Dept Health & Environ Sciences	45,612,904	48,060,351	60,265,151	62,431,524	93,673,255	122,696,675	29,023,420
5401	Department Of Transportation	324,442,851	327,771,545	345,705,255	347,658,545	652,214,396	693,363,800	41,149,404
5501	Department Of State Lands	19,239,056	18,515,770	24,728,189	21,096,238	37,754,826	45,824,427	8,069,601
5603	Department Of Livestock	5,122,645	5,133,294	5,520,792	5,600,853	10,255,939	11,121,645	865,706
5706	Dept Nat Resource/Conservation	13,474,856	13,024,552	18,157,718	13,038,937	26,499,408	41,196,655	14,697,247
5801	Department Of Revenue	23,979,932	23,837,869	22,496,440	22,163,209	47,817,801	44,659,649	(3,158,152)
6101	Department Of Administration	42,930,850	42,698,286	47,532,623	46,799,377	85,629,136	94,332,000	8,702,864
6103	State Comp. Mutual Ins. Fund	165,125,394	179,773,606	168,398,081	182,807,255	344,899,000	351,205,336	6,306,336
6104	Public Employees Retirement Bd	1,110,978	1,082,572	1,183,270	1,110,389	2,193,550	2,293,659	100,109
6105	Teachers Retirement Board	677,757	641,274	670,239	627,711	1,319,031	1,297,950	(21,081)
6201	Department Of Agriculture	6,667,086	6,704,908	8,212,524	7,261,209	13,371,994	15,473,733	2,101,739
6401	Dept. Corrections & Human Ser	94,537,938	96,667,934	92,267,420	94,068,789	191,205,872	186,336,209	(4,869,663)
6501	Department Of Commerce	56,346,624	56,463,654	64,642,667	62,675,891	112,810,278	127,318,558	14,508,280
6602	Labor & Industry	41,370,931	41,286,004	46,913,276	43,488,844	82,656,935	90,402,120	7,745,185
6701	Adjutaot General	6,053,803	6,083,031	6,723,151	6,646,775	12,136,834	13,369,926	1,233,092
6901	Dept Social & Rehab Services	487,494,450	523,382,831	469,841,464	503,419,194	10,877,281	973,260,658	(37,616,623)
6911	Department Of Family Services	57,685,868	59,064,999	62,297,655	62,279,763	116,750,867	117,725,418	974,551
Totals		\$1,788,440,246	\$1,828,791,910	\$1,858,829,520	\$1,853,883,051	\$2,617,232,156	\$3,712,712,571	\$95,480,415

